Distr.
GENERAL

UNCTAD/ITD/8
18 April 1994

ENGLISH ONLY

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

POSSIBLE IMPROVEMENTS TO THE GENERALIZED SYSTEM OF PREFERENCES

Study prepared by Michael Davenport*

---

* This study was prepared, at the request of the UNCTAD secretariat, by Michael Davenport, Economic Adviser and Research Associate of the Overseas Development Institute (ODI), London.

The views expressed in this study are those of the author and do not necessarily reflect the views of the UNCTAD secretariat.

GE.94-51665

CONTENTS

		Paragraphs
I.	Introduction: principles of the GSP	1 - 10
II.	The economic rationale of the GSP	11 - 22
III.	Present situation with respect to the GSP	23 - 50
IV.	The economic impact of the GSP	51 - 77
V.	Issues and proposals	78 - 148
	A. Security	78 - 79
	B. Product coverage	80 - 84
	C. Depth of tariff cuts	85 - 89
	D. Safeguards, quantitative restrictions and product graduation	90 - 98
	E. Country graduation	99 - 101
	F. Rules of origin	102 - 106
	G. Non-tariff barriers	107 - 111
	H. Least developed countries	112 - 115
	I. Consultations and conciliation mechanisms	116 - 121
	J. Parallel measures for services	122 - 124
	K. Parallel measures for foreign direct investment	125 - 128
	L. Central and Eastern European country schemes and possibilities for new GSP schemes	129 - 138
	M. The Central and East European countries as GSP beneficiaries	139 - 142
	N. Technical cooperation linked to the GSP, UNCTAD Technical Cooperation Programme on the GSP and Other Trade Laws	143 - 148
VI.	The effects on the preference-giving countries of adopting the major reforms	149 - 153
VII.	Conclusions	154 - 159

ANNEXES

I. A proposed mechanism for eliminating TQ limits on eligibility for GSP treatment

II. Country graduation

III. The impact of the GSP on the Central and Eastern European countries

TABLES

Table

1. Selected characteristics of the various GSP schemes

2. Changes in the numbers of beneficiaries of the various GSP schemes

3. Imports from GSP beneficiaries excluded from the United States GSP, $ million and as percentage of dutiable imports, selected years

4. Imports from GSP beneficiaries excluded from the European Union's GSP, $ million and as percentage of dutiable imports, 1991

5. United States GSP: industrial products with coverage rate less than 30 per cent and MFN tariff, 1991

6. European Union's GSP scheme: frequency of reimposition of MFN tariffs and of achievement of ceilings by country, 1988, 1992

7. European Union's GSP scheme: reduced fixed duty amounts and product graduations, industrial goods, and MFA goods, 1989, 1993

8. United States GSP scheme: imports denied GSP treatment owing to competitive need criteria, 1989, 1991, $ million and per cent

9. Imports of preference-giving countries from beneficiaries of their schemes, 1976-1992

10. Preferential imports into selected preference-giving countries from their beneficiaries, annual average increase 1976-1992 and 1991-1992

11. Preferential imports into selected preference-giving countries from all and LDC beneficiaries, adjusted for inflation, annual average increase 1976-1992

12. Imports of major preference-giving countries from their major beneficiaries, 1992

13. Imports under the European Union's GSP by broad grouping and beneficiary, potential and actual tariff savings, 1991

14. Imports under the United States GSP by broad grouping and beneficiary, potential and actual tariff savings, 1991

Table

15. Principal preferential imports under the United States GSP by product group, 1991

16. Imports of major preference-giving countries from LDC beneficiaries, 1976-1991

17. Preferential imports into selected preference-giving countries from their LDC beneficiaries, annual average increase 1976-1992 and 1991-1992

18. Industrial imports from least developed country beneficiaries under the European Union and United States GSP schemes

19. Summary; Utilization of the European Union, Japanese and United States GSP schemes by Central and Eastern European countries in transition, 1991

20. European Union's GSP, coverage and benefiting ratios, 1990 and 1991

ABBREVIATIONS

CAP	Common Agricultural Policy (European Union)
CIS	Commonwealth of Independent States (former Soviet Union less the Baltic States)
ECSC	European Coal and Steel Community
FSU	former Soviet Union
GSP	Generalized system of preferences
LDC	Least developed country
MFA	Multifibre Arrangement
MFN	Most favoured nation
NIC	newly industrialized country
NTB	non-tariff barrier
NTM	non-tariff measure
QR	quantitative restriction
TQ	tariff quota

I. INTRODUCTION: PRINCIPLES OF THE GSP

1. In launching the GSP at its second session in 1968, the United Nations Conference on Trade and Development defined the original purposes as aiding the developing countries to expand their exports, to promote their industrialization and to raise their rates of economic growth. Of course, these were not seen as independent goals. Export expansion would itself promote industrialization, and vice versa, and both would serve to raise growth rates.

2. Past reviews of the GSP have assessed its achievements in terms of these objectives as positive but as not having fully achieved its objectives. In particular, the 1990 Comprehensive Review argued that the GSP had only had a minor, albeit positive, effect on growth and industrialization in the developing countries. Exports of the developing countries receiving tariff preferences in OECD markets grew from $10 billion in 1976 to nearly $70 billion in 1991. However, there has been only a marginal increase in the share of total dutiable exports receiving GSP treatment. Not only that, but declining tariff rates have reduced the potential capacity of the scheme as an instrument of export promotion. Industrialization has been rapid in a number of beneficiary countries, notably the NICs, and studies suggest that the GSP has made a significant contribution (see section IV below). However, in most developing countries the record on industrialization remains disappointing, as is the overall growth performance.

3. In the Chairman's summary at the twentieth session of the Special Committee on Preferences, it was stated that: "While agreeing to the importance of the GSP, a number of countries felt that the system should be revitalized and that fresh and innovative approaches should be taken in its design, review and improvement ... and there was a general consensus that the Committee should conduct a policy review on the GSP and that the next session could serve in part as a preparatory meeting for this review."

4. The revitalization of the GSP is integral to the aims of the Cartagena Commitment, which charges UNCTAD with the "translation into operational terms" of the New International Partnership for Development which is crucial to "the enhanced participation in the world economy of the developing countries". "Intensified international cooperation for development involves fresh approaches to traditional areas, including ... special measures to promote developing countries' exports (para. 63). The Conference notes that many developing countries have benefited from GSP treatment, and encourages preference-giving countries to continue "to improve and renew the schemes..." (para. 134). Specifically it draws attention to the importance of reviewing country coverage and of expanding product coverage, to minimizing restrictions on preferential imports and withdrawals of GSP

benefits and of simplifying and harmonizing rules of origin (para. 135). It expressed concern with the incidence of non-tariff measures (para. 136), urges the implementation of the Paris Declaration and Programme of Action provisions in favour of least developed countries (para.137) and recommends increased contributions to the UNCTAD technical cooperation programme on GSP (para. 138).

5. This study has been prepared in response to the Conference's request to the Special Committee on Preferences "to examine the scope and modalities for extending preferential treatment to developing countries with respect to goods, in accordance with the principles and objectives underlying the GSP" (para. 139). Inevitably many of the recommendations of the Cartagena Commitment will be reiterated as proposals in this study, though it is the intention to place them in the context of a review of the effectiveness of the GSP as a whole. This study does not discuss the arguments for or against the introduction of GSP schemes by the higher-income developing countries.

6. The GSP was founded on three underlying principles: it was to be generalized, non-discriminatory and non-reciprocal. Despite lip-service to the importance of these principles, it can be argued that they are each being eroded as the various GSP schemes become increasingly restricted in coverage and hedged with conditions; and, in some cases, used for new purposes unrelated to the original goals.

7. The principle of "generalization" is jeopardized, firstly, through limitations on product coverage, and secondly through the exclusion of certain countries in respect of all their exports or in respect of certain products, through rules specific to particular schemes or, in some cases, discretionary decisions. For example, exclusions by product reduce the coverage of the United States scheme to about one third of dutiable products. Country-product pair graduation has further reduced the scope of the United States GSP so that less than one fifth of dutiable goods from eligible countries are admitted under the GSP. In 1993, 20 sensitive industrial country-product pairs (other than textile and ECSC products) are excluded by the European Union's (EU) scheme and a further 23 have had their TQs reduced prior to full exclusion.[1] There is a clear need for common and transparent criteria for determining when a product from a particular beneficiary country becomes "competitive" and no longer qualifies for GSP treatment.

8. Non-discrimination - the second principle - implies a common definition of eligibility for GSP, or least developed country, status among all preference-giving countries. Country graduation should be based on commonly agreed criteria. While there has been progress in widening the GSP net, so that nearly all the preference-giving countries have included the whole Group of 77 developing countries within their schemes, there is no agreed mechanism for excluding countries for whom GSP is no longer appropriate. Secondly, the practice of limiting access to GSP

appropriate. Secondly, the practice of limiting access to GSP

treatment to certain countries on an apparently arbitrary basis is clearly discriminatory. Any such limitations should be based on transparent and harmonized rules related to export performance criteria.

9. The third principle - that of non-reciprocity - may appear to be less at issue. In fact, however, the growing use of the GSP, or even of LDC status within the GSP, to obtain leverage over a country's trade policies or policies not directly linked to trade does introduce an element of reciprocity.

10. The need for a review of the operation of GSP is thus first triggered by the growth in restrictions on the use of the various GSP schemes which have been instrumental in limiting the efficacy of GSP to satisfy its original goals. Secondly the development of broader export supply capacities, which can lead to more diversified patterns of exports among most developing countries, is now as pressing as it ever was. However, it is particularly timely to review the situation now when there are both new threats to the efficacy of the GSP mechanism and new opportunities for extending and deepening the system. These comprise:

(a) The development of regional trading blocs. These include the North American Free Trade Agreement (NAFTA), the Europe Agreements between the Central European countries and the EU and parallel agreements between the former and EFTA, and the European Economic Area (EEA). The growth of these trading areas implies the extension of free or preferential access for particular countries, both developed and developing, to major industrial markets in North America and Europe. The improvement of the GSP will help to ensure that the rest of the developing world is not excluded from improved access to developed country markets.

(b) The preferences granted by most OECD preference-giving countries to the former socialist countries of Central and Eastern Europe, even though their income levels and the extent and diversity of their industrialization preclude some of these countries being considered as developing countries. The GSP is being used as an instrument to help economic reform. A significant improvement of the GSP is needed to ensure that the benefits of improved access to the developed-country markets are balanced between the economies in transition and the developing countries.

(c) The fall in the (arithmetic) average of the industrial tariff of the industrial countries from 10.4 per cent to 6.4 per cent through the effects to the Tokyo Round. With the successful conclusion of the Uruguay Round of multilateral trade negotiations, GSP tariff preferences margins in favour of developing countries will be eroded and in many cases actually disappear. Areas where tariffs could be eliminated

include pharmaceuticals, construction equipment, medical equipment, steel, beer, and, subject to certain agreed exceptions, furniture, farm equipment and spirits. In other sectors tariffs are likely to be harmonized at low rates.

(d) The new opportunities for improving GSP coverage which are likely to arise from the tariffication of goods following the Uruguay Round agreement. This will affect in particular agricultural products and textile products, which are of special interest to the developing countries but where trade was previously managed largely by non-tariff barriers.

(e) The preferential access which the LDCs enjoy beyond that of other developing countries, either in the form of tariff margins, greater product coverage or the absence of quantitative limits on GSP exports. This preferential access is being eroded by falling tariff rates, improved product coverage for other countries and the phasing out of quantitative restrictions on non-LDC developing-country exports, including the elimination of MFA quotas and "voluntary export restraints" following the Uruguay Round agreement. Special efforts are required to improve and preserve the relative position of the LDCs.

(f) The inability of the LDCs to take full advantage of many GSP schemes owing to the exclusion of certain products of export interest to them, limited special provisions regarding rules of origin, the complexities of the system and the frequent changes in individual schemes.

(g) Finally, the need to respond to the unilateral initiatives of the developing countries in opening up their own markets - their rejection of protection and import-substitution in favour of the gains from participation in a liberal trading system - which will inevitably largely benefit the exporters in the developed countries. The range of feasible exports in the medium term for any one developing country is limited, in some cases extremely so, and thus these countries need access to the markets of the industrialized countries for their current exports and those into which they can plausibly expect to diversify.

II. THE ECONOMIC RATIONALE OF THE GSP

11. As stated earlier, the declared goals of the GSP from the outset have been trade expansion, industrialization and economic growth. From a theoretical viewpoint, tariff preferences can be expected to both change the overall volume of trade and distort the geographical pattern of trade. They will also probably have indirect effects, for example through encouraging investment in exporting industries. This may increase the rate of industrialization though it may also generate investment in the agricultural, fisheries and natural resource product sectors. To the extent that this investment comes from abroad it is likely to lead to the transfer of technology and skills.

12. The increase in the volume of trade is referred to as trade creation. It arises as production shifts from higher-cost domestic sources to lower-cost sources in the beneficiary country, which are then available for consumption in the preference-giving country at a lower price than that from domestic sources. Trade diversion will take place to the extent that the preference-giving country increases imports from the beneficiary at the expense of imports from its non-preferred suppliers.

13. Trade creation is generally considered desirable as it implies an improvement in the allocation of production in favour of lower-cost producers. On the other hand, trade diversion leads to an artificial distortion in the allocation of production in favour of the countries with the tariff preference and against those who continue to face MFN tariffs.

14. Another, more pragmatic, rationale for trade preferences for the developing countries is the need to support industrialization and a shift to manufactures, in particular to those products where world demand shows greater income elasticity and hence growth prospects, in distinction to foodstuffs, minerals and other natural resource-based products whose world income elasticity appears low.

15. More broadly, the GSP is seen as a spur to investment in new export sectors and, thus, a generator of employment opportunities. This can help resolve the vexed problem of the migration of labour from the developing to the industrialized world.

16. The GSP thus represents an exception to the principle of non-discrimination in trade (which has become enshrined in the GATT concept of most-favoured- nation status). Had it not been for trust in the so-called dynamic effects, the GSP might not have got off the ground. The conventional wisdom in the 1960s was that it would contribute to faster growth and the catching-up of the developing countries by accelerating the process of industrialization. The initial increase in exports would attract investment in the export and upstream industries, typically

assumed to be in the manufacturing sector, including foreign direct investment which would be the vehicle for the transfer of new technologies. Exposure to international competition would bring improvement in labour and management skills.

17. These dynamic effects may be strengthened, if not multiplied, by an economies-of-scale factor. The initial increase in trade is assumed to generate such economies which will in turn lead to productivity gains, both in the export industry itself and in related sectors.

18. On the other hand, the link between an export increase induced by GSP and investment is by no means assured. Investments will be influenced by expectations of future earnings, the availability of capital goods and the cost of capital, and general economic conditions. The extent to which investment improves economic growth performance depends on such factors as the increase in labour productivity induced by the new capital and the availability of complementary factors of production.

19. It can be argued that the GSP represents a move, even if limited and unbalanced, towards freer trade and the widening of opportunity for the exploitation of comparative advantage. As far as manufacturing is concerned, it encourages the preference-giving countries to specialize in the production of goods for which they have an advantage, traditionally goods intensive in physical and human capital and to exchange them for labour-intensive products. In intra-industry trade, both countries may gain from horizontal (i.e. product) specialization and from vertical specialization. The latter may involve the import of labour-intensive components by the preference-giver from the beneficiary and the export of the finished goods. But increasingly it involves the labour-intensive "out-processing" in the beneficiary of capital-intensive materials produced in the preference-giving country and, thereafter, the return of the semi-finished goods for final processing in the latter.

20. But from the view point of aggregate gains in economic welfare, preferences can be shown to be inferior to multilateral trade liberalization. However, in the real world, there is rarely a simple choice. If dynamic effects are absent or ignored, discriminatory preferential access can be shown to increase overall economic welfare only when trade creation exceeds trade diversion. However, there are major statistical and conceptual problems in establishing that to be true in any given case. When dynamic effects are included, statistical verification breaks down entirely. In any event, the GSP has always been viewed as a mechanism to promote the well-being, and the catching up, of the developing countries. It was never meant to be judged on grounds of global optimality.

21. It is arguably more valid to compare the GSP schemes with alternative forms of development assistance. In such a comparison the GSP has two great advantages. Firstly, the benefits are performance-related in that they increase as exports increase.[2]

Secondly, the GSP does not distort the operations of the market. Indeed the effect of the GSP, to the extent that the beneficiary countries face zero and thus more uniform tariffs, will be to encourage a more efficient allocation of resources. This is the case in the industrial sector with most of the schemes. The only major exceptions are the TQs in the European Union (EU) and the United States schemes. In general, however, in terms of resource allocation, the GSP can be defended on analytical grounds against almost all forms of development assistance.

22. Finally it should be emphasized that the theoretical effects of the GSP, both static and dynamic, depend on the initial response to the tariff advantage in the form of increased exports. Where that response is blocked - by an inelastic supply in the beneficiary country, possible labour or intermediate input shortages or other bottlenecks, or tariff quotas or other quantitative restrictions on imports eligible for preferential treatment - these effects will not occur (or at best be limited in magnitude). But since the goods imported from the beneficiary will sell in the importing country at the same price as the same goods imported from a non-beneficiary, an economic rent, equivalent to the product of the tariff and the quantity of the preferred imports, will be generated. This can accrue either to the exporting companies, as in the case where the tariff quota is allocated ex ante by the authorities or through cartel arrangements in the exporting industry, or to the importing companies or other agents, where the exporters compete for market share through price. Thus where tariff quotas are imposed which prevent any significant increase in imports from the beneficiary, the transfer of rent to the beneficiary, which, by default, might be considered a form of development aid, will depend on the existence of non-competitive conditions among the suppliers. Otherwise the rent will accrue as windfall profits to the importing firms in the preference-giving country. Intermediate outcomes, where the rent is divided, are possibly most common in practice.

III. THE PRESENT SITUATION WITH RESPECT TO THE GSP

23. This section reviews the present features of the various schemes, while reporting developments in the GSP since the last comprehensive review of the GSP submitted to the Special Committee at its seventeenth session.[3] Features are described and evaluated in terms of each of the common elements of the various schemes.

24. **Duration: Conference resolution 21 (II) of 26 March 1968 established the GSP for an initial period of 10 years through a waiver of GATT Article I. In 1979, the "Enabling Clause", which emerged as a result of the Tokyo Round, provided the legal basis for the further extension of the system beyond the initial 10-year period.**

Details of the duration of the present schemes are given in the last column of table 1. It should be noted that the Australian and Swedish schemes are formally unlimited in duration, while a number of others continue in operation without any specifications concerning their termination or extension. The United States scheme was automatically extended from 4 July 1993 to 30 September 1994 prior to a possible longer-term extension. The European Union's scheme ended on 31 December 1991 but was extended on a year-to-year basis in 1992 and 1993. Definitive extension of the EU GSP scheme is waiting for consultations between member States. Thus there is considerable uncertainty about the life expectancy of a number of schemes including those of the EU and the United States.

25. **Beneficiaries and country graduation: in the absence of generally acceptable objective criteria for a definition of a developing country, the OECD preference-giving countries relied on the principle of "self-election". Under this principle, they agreed to grant preferences to any developing country or territory claiming developing status, while reserving the right to decline such preferential treatment on grounds which they held to be compelling. They also agreed that "such ab initio exclusion of a particular country would not be based on competitive considerations".[4] Nearly all countries members of the Group of 77 are recognized as beneficiaries in most of the schemes. In addition, a number of non-members of the Group of 77 enjoy preferences under one or more of the schemes.**

Table 2 summarizes changes in the numbers of beneficiaries of the individual schemes. Over the years, most preference-giving countries have tended to increase the number of beneficiaries and now nearly all members of the Group of 77 are beneficiaries in most schemes. Certain other territories and countries are included in some schemes.[5] Bulgaria, Czech Republic, Hungary, Poland, Slovak Republic and the Russian Federation, although preference-giving countries, are preference-receiving countries under some schemes.

26. Recently an increasing number of beneficiaries have been losing beneficiary status. Over the last decade the United States has excluded a number of countries for various reasons. Four beneficiaries have lost GSP status because they exceeded a per capita income level established as a ceiling.[6] Four beneficiaries, Singapore, the Republic of Korea, Taiwan Province of China, and Hong Kong, were "graduated" because of their "remarkable advancements in economic development and their recent improvements in trade competitiveness".[7] Increasingly the United States has used exclusion as a lever to obtain policy changes not directly related to trade.[8]

27. At the beginning of 1988 the Republic of Korea was excluded from the then EC scheme on the grounds that it "does not treat the Community on an equal footing with other trade partners" and moreover "has taken discriminatory measures in respect of the Community in the sphere of the protection of intellectual property".[9]

28. Under the GSP scheme of Australia, effective 1 July 1992, four Asian beneficiaries were excluded from its scheme. Under the scheme of New Zealand, several former beneficiaries lost their beneficiary status because the introduction of a country graduation policy (countries whose per capita income exceeds 70 per cent of that of New Zealand have been excluded from GSP benefits under its scheme).

29. Under the GSP scheme of Poland, from 1991 only non-European developing countries and regions, where per capita gross domestic product does not exceed the corresponding indicator for Poland, are eligible. Therefore some beneficiaries have been deleted from the scheme and are now granted MFN treatment.

30. **Product coverage: coverage concentrates heavily on semi-manufactured and manufactured products with some exceptions. A smaller number of agricultural products have been added to the schemes. Most agricultural products are excluded for the majority of schemes.**

In all schemes, products have been added. In a few cases some have been excluded. Australia, after in the past enlarging its scheme to include nearly all products, is now "gradually removing preferential margins on certain items where general tariff rates are being phased down under Australia's wide-ranging tariff reform programme". This will affect textiles, clothing and footwear, sugar, vegetable and fruit preparations. The preference rate will remain at the previous level until the MFN rate reaches or is reduced below that level at which time the MFN rate will apply. For textiles, clothing and footwear goods, the changes will come into effect on 1 July 1994. In addition from 1 July 1995, preferences will be removed in the case of textile yarns.[10] While unilateral tariff disarmament is generally to be welcomed, it does mean that the developing countries in future will have to compete with the rest of the world on an MFN basis on the Australian market.

31. Tables 3 and 4 show the percentage share of products excluded ab initio from the GSP in United States and EU imports from beneficiaries respectively, with, in the former case, data for a selection of years stretching back to 1977. Obviously the exclusion of most textile and leather products in the United States GSP substantially reduces the coverage of industrial products, absolutely and relative to the EU scheme. The fact that there has been no clear upward trend in the coverage of the United States scheme distinguishes from a number of the smaller schemes - in particular those of Australia, Norway, Finland, Sweden and Switzerland - where coverage has increased substantially (see table 9).

32. Limitations on coverage inevitably penalize particular beneficiary countries. For example the limited coverage of temperate agricultural products in most schemes, including the largest, means that some of the principal exports of South America do not qualify for GSP treatment. For example the share of dutiable imports covered by the United States GSP scheme in 1991 in dairy products, cereals, meat and tobacco together was only 5.1 per cent. The loss in preferences was particularly high in meat where the average MFN tariff was 16.8 per cent and tobacco where it was 10.5 per cent.

33. Table 5 shows that in industrial goods the United States scheme covers small or insignificant shares of imports in a number of products of importance to developing countries, including the least developed. These include various categories of fibres, textiles and clothing, carpets, footwear and leather goods. The average MFN tariffs on these product groups is typically higher, often substantially higher, than the import-weighted average of 5.9 per cent for all industrial goods.

34. **Depth of tariff cuts: the extent to which preferential tariffs are lower than MFN tariffs varies widely among the various schemes.**

The depth of tariff cuts has tended to increase over the years under those schemes which did not grant total duty-free treatment from the outset. However, the extension of tariff-free entry to all industrial products and deeper tariff cuts for agricultural products has not yet offset the erosion of GSP margins as a result of MFN tariff cuts agreed to in the multilateral trade negotiation in the Tokyo Round (see section IV). This process of erosion will be further accentuated by the tariff cuts agreed in the Uruguay Round.

35. Since the last review, Poland has reduced its general margin of preferences from 0.7 to 0.3 as from 15 January 1991. This means that the preferential tariff rates will be 30 per cent lower than the base MFN rates. Hungary granted tariff-free treatment to some tropical products and substantially increased the preferential margin on some other tropical products.

36. **Safeguard clauses and other country-product pair exclusions: most schemes have clauses analogous to GATT Article XIX. A priori product and/or country exclusions, quotas, ceilings, competitive need criteria and maximum country amounts, which are used to exclude from GSP benefits products from countries deemed to have reached a certain level of competitiveness, are features of the larger schemes.**

Most schemes contain a general safeguard mechanism under which preference-giving countries reserve the right to exclude or limit GSP imports which are found to cause, or to threaten to cause, injury to domestic industries. In many cases these have not, or have been rarely used (see table 1). However mechanisms designed to limit access to the GSP when countries reach a certain level of competitivity, including global or country-specific quotas, ceilings and selective tariff reductions, may also be used to protect domestic industry in the preference-giving countries, as do exclusions based on criteria unrelated to trade performance.

37. In the case of **the European Union**, a priori limitations apply to most of the products included in the scheme but with more or less severity, depending on the sensitivity of the products and the competitiveness of the suppliers as determined by the EU. Present limitations consist in individual annual fixed duty-free amounts (FDFA) in regard to beneficiaries considered as competitive for specific sensitive products or individual ceiling vis-à-vis the other beneficiaries.[11] Furthermore, all other industrial products which are considered as non-sensitive are subject to surveillance. Preferential imports for a particular non-sensitive category should not be more than about 6 per cent of EU imports from all sources other than of intra-trade and of the beneficiaries.[12] For selected products this is lowered to 2 per cent.

38. Under the EU scheme, in 1992, 179 items including agricultural and MFA textiles have been affected by the FDFA or other TQs and the MFN rates re-established vis-à-vis the beneficiaries affected up to the end of the year.[13] In addition, in the case of three products the MFN rates were re-established vis-à-vis all beneficiaries. Table 6 shows the frequency of the reimposition of MFN tariffs by beneficiary country. Clearly this has happened much more frequently in 1992 than in 1988. The beneficiaries worst affected are China, the Republic of Korea, the former Czechoslovakia and Thailand.

39. The criteria for the setting of country-product pair exclusion, that is exclusion from the scheme of a given category of products for a particular beneficiary, were spelt out further in 1986.[14] According to these criteria, a state of competitiveness is deemed to have been attained by a beneficiary in a particular product when the beneficiary's exports exceed 20 per cent of the Union's imports from outside the EU, or when imports from the beneficiary exceed 10 times the individual quota set for that beneficiary. These criteria give rise, in the first instance, to a reduction of individual tariff quotas by 50 per

cent, followed in subsequent years by withdrawal of the preference for that product. Different criteria have been established for textile products. Table 7 shows the incidence by country of reduced quotas and exclusions.

40. Since its inception, the scheme of **Japan**, has made provision for quantitative limitations on preferential imports. These have been liberalized with the abolition of 20 ceilings from FY 1993. Ceilings now apply to less than half the industrial products covered by the scheme. Maximum country amounts of 25 per cent apply to these ceilings and have reduced GSP-eligibility more effectively than the ceilings.[15] In the past about three-quarters of imports from major beneficiaries have been denied GSP treatment through this mechanism. The UNCTAD GSP Study Programme emphasized that "the administration of quotas reflects a protectionist element as these have been increasingly applied in sectors in which Japan has been losing competitiveness relatively to important developing country suppliers, such as in textiles, iron and steel and chemicals".[16] Ceilings and maximum country amounts are administered on a first-come first-served basis subject to daily control or monthly control, or by prior allotment. In some cases where there is no threat to Japan's domestic industry, ceilings and maximum country amounts are applied flexibly with preferential treatment continuing after the quantitative limits have been exceeded.

41. In fiscal year 1991, under the Japanese scheme, 48 product groups were re-established and the MFN rates were re-established vis-à-vis all beneficiaries up to the end of the fiscal year. In addition 20 product groups were affected by the maximum country limitation vis-à-vis 15 beneficiaries.[17]

42. Under the scheme of **the United States**, escape-clause safeguards have never been invoked. However, the United States has established a system of limitations which it applies to all products covered by the GSP. "Competitive need criteria" provide for the withdrawal of preferential treatment when imports of a particular product from a particular beneficiary exceed 50 per cent of total United States imports of that product or a certain dollar value, which is adjusted annually to reflect the growth of nominal United States GNP.[18] The 50 per cent limit does not apply where a similar or directly competitive product is not produced in the United States. Under a de minimis provision, the 50 per cent rule may also be waived where United States imports of a product are less than a certain amount, which is also adjusted annually to reflect changes in nominal GNP.[19] In 1991, application of the competitive need criteria resulted in an exclusion from preferential treatment of imports valued at $8.8 billion.

Altogether, 111 harmonized tariff schedule items were excluded in respect to one or more beneficiaries. Table 8 gives details of the countries involved.[20] While the number of cases has come down since 1989, the value of trade affected remains much the same.

43. An explicit policy of country graduation under the United States scheme was adopted following the review of the first five years of operation of the scheme. The report of the President characterizes the policy of graduation as "the phasing out and eventual elimination of differential treatment for the more economically advanced developing countries and the progressive alignment of their trade policies with the generally applicable rules of the international trading system".[21] Up to 1980, the criteria for differential treatment under the United States scheme related only to products; under the new policy of graduation, they also apply to countries. The renewal of the United States scheme in 1985 introduced five types of (product or country) graduation. First, benefits under the scheme may be terminated after a two-year phase-out period for any beneficiary whose per capita income exceeds $8,500 (indexed to one-half the growth in nominal United States GNP since 1984). During this period, the 50 per cent competitive need limit would be reduced to 25 per cent. Secondly, a country may lose beneficiary status by Presidential discretion on a number of grounds (see para. 26 above, including endnote 8).[22] Thirdly, there is the normal continuation of product graduation according to the competitive need formula, as provided for under the Trade Act of 1974. Fourthly, benefits on specific products can be withdrawn for specific beneficiaries, in accordance with their level of development, their international competitive position, and the overall interests of the United States. Fifthly, there is provision for accelerated product graduation. The President has already conducted a general review of trade under the scheme to identify those beneficiaries that have demonstrated "a sufficient degree of competitiveness" (relative to other beneficiaries) in exporting particular products eligible for GSP treatment. Where such competitiveness was determined to exist, the normal competitive need limits were reduced by half.[23]

44. While country graduation cannot be waived, the Trade and Tariffs Act of 1984 authorizes the President to waive the application of specific aspects of product graduation, subject to certain conditions and limitations.[24]

45. Rules of origin are intended to guarantee that export products for which preferential treatment is claimed do in fact originate in the beneficiary country claiming such treatment. All schemes apply a similar definition of wholly-obtained products for determining their origin. For products containing imported inputs or inputs of unknown origin, substantial transformation or sufficient working or processing must take place before the goods can qualify for GSP treatment. This is interpreted either by the "process" criterion (OECD European preference-giving countries and Japan) or the "percentage" criterion (the remaining preference-giving countries). Rules of origin also establish documentation requirements and determine the extent to which "cumulation" is allowed. Cumulation refers to the use of inputs from other preference-receiving countries or from the preference-giving country and cumulation rules determine the extent to which the value of these inputs can be counted towards meeting origin requirements for eligibility under the GSP. Most of the schemes also contain rules on direct consignment.

The original objective of the GSP was to have a single, harmonized set of rules, as simple as possible and applicable to all goods exported to all preference-giving countries. Conference resolution 159 (VI), paragraph 18, reiterated this objective and called also for further liberalization of the rules, with special attention being given to the least developed countries.

46. Despite all attempts at harmonization and simplification, there continue to be two substantially different methods of interpreting the concept of substantial transformation or sufficient working or processing, allowing widely different interpretations, especially in the case of the percentage criterion. Adequate liberalization measures have not been adopted and even those adopted have been of limited scope.[25]

47. The beneficiary countries have continuously requested global cumulation. While some preference-giving countries have introduced global cumulation and others have extended provisions for regional cumulation, the three largest schemes, those of the EU, the United States and Japan, still do not allow global cumulation (see table 1). The beneficiaries have also requested donor country cumulation which would encourage outward processing of raw materials and semi-finished goods. This is still not accepted by most donor countries, including the EU and the United States.

48. The least developed countries (LDCs), as classified by the United Nations, receive special and more favourable treatment under most schemes with respect to elements discussed above.

Although at present the United Nations recognizes 47 LDCs, each preference-giving country, using the United Nations list as a broad basis, has drawn up its own list of LDCs. Since the introduction of the schemes there have been significant increases in the number of beneficiaries and very few deletions (see table 2). Most preference-giving countries now give LDC status to most such countries on the United Nations list, but the treatment of countries and territories outside of the Group of 77 is extremely variable. The EU gives special preferential treatment to many LDCs under the Lomé Convention and such countries are in effect only nominal beneficiaries of the Union's GSP scheme.

49. The special concessions granted to LDCs have varied from one preference-giving country to another in relation to all the main elements of the system (coverage, depth of tariff cuts, quantitative limitations, rules of origin). As far as the product coverage is concerned, some preference-giving countries (Norway, Sweden, Bulgaria, Hungary and Finland with a few exceptions in this last case) provide full coverage for all products (chapters 1-97 of the Harmonized System). Other preference-giving countries provide extended coverage for LDCs, while in other schemes the product coverage remains the same for all beneficiaries.

50. Tariff-free entry is usually granted on the products covered by the scheme, with the exception of a few preference-giving countries (Austria, New Zealand and Switzerland), which apply only a partial cut in the MFN rate of tariff. With very few exceptions, no quantitative limitations on preferential imports apply to LDCs. Except for Canada and the EU, no other preference-giving country accords special rules of origin in favour of the least developed countries.

IV. THE ECONOMIC IMPACT OF THE GSP

51. As can be seen in table 9, for all OECD preference-giving countries, dutiable and preferential imports increased by more than six and seven times, respectively, between 1976 and 1992 (1976 was the first year for which all GSP schemes became operational and complete information was available). OECD preferential imports attained in 1992 a value of $77 billion. Preferential imports represented 20 per cent of dutiable imports in 1976 and roughly 24 per cent in 1992.

52. All schemes, except that of Japan, show a tendency towards widening of product coverage. In the case of Japan, the ratio of GSP-covered imports to dutiable imports fell from 53 per cent in 1976 to 35 per cent in 1992, mainly owing to the unilateral tariff elimination for almost all products falling within HS chapters 84 and 85, where the MFN rate was set to zero. Utilization rates (the ratio of preferential imports to covered imports) increased for OECD preference-giving countries as a whole from 43.7 per cent in 1976 to 49.5 per cent in 1992. However, the utilization rate declined in the case of Canada, Finland, Japan, New Zealand and Sweden. The main reason for the reductions in utilization rates was increased use of TQs and other restrictions on the use of the schemes.

53. The three major schemes (the European Union (EU), Japan and United States) remain the principal importers from beneficiaries. In 1991, dutiable imports of these major schemes represented 90 per cent of all OECD preference-giving countries while preferential imports amounted to 81.4 per cent of total preferential imports.

54. Table 10 compares growth rates for total imports, imports from beneficiaries and preferential imports for the major donor countries. Preferential imports have generally increased faster than total imports or those from the developing countries. Japan is an exception for reasons already explained. Most preference-giving countries have seen their exports from the developing countries expand rapidly over very recent years. This is clear in the 1991-1992 growth rates. The main exceptions were the EFTA countries where sharp recessions had particularly damaging effects on imports from the third world, though not specifically on preferential imports.

55. Table 11 shows 1976 to 1992 average growth rates of preferential imports in both nominal and real terms, where nominal rates have been deflated by the unit value index of manufactured goods exports of the developed market economies.[26] Since 1976 preferential imports by the OECD member countries have grown in real terms at over 8 per cent per year, by any standards a creditable record but, as we have seen through looking at coverage and utilization rates, far from what might have been achieved. Some preference-giving countries showed much higher growth rates - double-figures in the cases of Australia, Austria, Finland and

Norway. The most important factors differentiating these cases was the expansion of product coverage and limited recourse to TQs and other restrictions on GSP eligibility.

56. As seen in table 12, under the three major schemes, a limited number of the suppliers were responsible for the bulk of covered imports. In 1992, the 12 largest beneficiaries in the EU scheme supplied 84 per cent of dutiable imports to the EU, the seven largest in the Japanese scheme 80 per cent to Japan and the six largest in the United States scheme 81 per cent to the United States. But these beneficiaries are disproportionately affected by limitations applied by the three schemes and consequently their share in total preferential imports amounted only to 80 per cent in the case of the EU, 75 per cent in the case of Japan and 71 per cent in the case of the United States.

57. Tables 12 to 14 show details regarding the EU and the United States schemes for 1991. In particular the hypothetical weighted average MFN tariffs for dutiable, covered and preferential imports (only dutiable in the EU case) have been calculated on the basis of individual tariff line imports.

58. In the case of the EU scheme, China is by far the greatest beneficiary. It receives GSP treatment on some third of its industrial exports to the EU. The average tariff on its dutiable exports is 9.3 per cent but that on its preferential exports is likely to be less given that sensitive products are both likely to bear higher tariffs and be excluded from or, at best, quota-constrained as regards the GSP. India, Brazil, Thailand and Singapore follow in terms of the value of preferential exports in 1991. Average duty rates among beneficiaries differ primarily with the share of low-tariff petroleum products in the export mix.

59. The amount of duty that would be paid in the absence of the GSP, assuming unchanged trade flows, or would be saved if coverage were extended to all industrial products is shown in the last column in table 13. China, the NICs of South-East Asia, other ASEAN member States, India, Brazil and Pakistan would be the major beneficiaries of comprehensive coverage. The results are generally unsurprising given the trade flows. Those exporters who are most subject to EU restrictions on their access to the GSP, notably Hong Kong, would gain disproportionately. Only the major oil exporters would not gain proportionately to their exports to the EU, given that the bulk of those exports already enters tariff-free.

60. Table 14 compares hypothetical tariff savings under an unrestricted United States scheme for industrial imports with actual tariff savings. As suggested earlier, actual savings are very much lower than those implied by the average MFN tariff and the value of preferential exports. The actual savings in tariff payments for all beneficiary countries was only $683 million, 0.7 per cent of United States imports from these countries. With full coverage of all imports the savings would have been seven times greater.

61. For the 15 beneficiary countries identified in the table, actual tariff savings were only about a sixth of the potential. One country, Mexico, accounted for almost a third of actual savings and about a third of potential savings. Unlike the EU case, there was considerable variation among the tariffs (hypothetical in that they are the value-weighted average rates for all dutiable imports) paid by the major beneficiaries of the United States scheme. This is mainly because the United States tariff schedule shows much greater inter-product variation than that of the EU. Tariff peaks for sensitive products like clothing and footwear mean that for certain countries, Bangladesh, Guatemala, Macao and Costa Rica, average rates are some three times that for GSP beneficiaries as a whole. But these are also products where GSP is unavailable or severely restricted. Hence the countries facing the highest tariff barriers also tend to be those benefiting least from the scheme.

62. The structure of the United States tariff schedule means that widening coverage to presently excluded categories could extend the benefits of the GSP to certain countries who hardly gain from it currently, in some cases despite being major exporters to the United States. Indeed the lower eight countries cited in table 14 are in this category.

63. As shown in table 16, preferential imports from LDCs into OECD preference-giving countries increased approximately seven times between 1976 and 1991. However, this increase could be explained by the inclusion of several new countries under the list of LDC beneficiaries under the various schemes over the years since 1976.

64. Growth rates of total and preferential imports from the least developed countries are given in table 17. The performance is extremely patchy, more because of the low values of imports from these countries and so their vulnerability to random fluctuations. But for the OECD countries as a whole preferential imports rose by only half as much again as the average rate achieved by total imports from these countries over the period 1976 to 1992. This was despite the sharp fall in United States preferential imports from the least developed countries.

65. Going back to table 11, one can see that in real terms the least developed countries have done slightly less well than the beneficiaries taken as a whole in terms of growth in preferential imports by the OECD member countries. Taking those individual donors, the least developed have done extremely well by Canada, Japan, New Zealand, Norway and Sweden and extremely badly by Australia, Finland and the United States - in absolute terms, let alone relatively to the non-LDC beneficiaries. One must conclude that some donor countries have introduced changes in their systems without taking account of the particular impacts on the least developed countries.

66. Table 18 shows just how badly the least developed countries do out of the United States scheme relatively to the other beneficiaries. These countries supplied in 1991 1.9 per cent of total imports from GSP beneficiaries and 1.7 per cent of dutiable imports. However only 0.3 per cent of covered imports came from the LDCs with only the same share of preferential imports. With comprehensive coverage of industrial goods the LDCs would have saved 3.5 per cent of the total MFN duty saved through the scheme.

67. On the other hand the LDCs relatively do rather well under the EU scheme. They supply 0.9 per cent of beneficiary imports, 1.3 per cent of dutiable imports and 1.9 per cent of covered imports. Yet they supply 2.2 per cent of preferential imports.

68. The share of imports into OECD preference-giving countries from their actual beneficiaries fell from 18.8 per cent in 1976 to 14.8 per cent in 1991[27] of their total imports from all sources. In addition, as shown in table 9, half of dutiable imports from beneficiaries are excluded from the schemes and half of covered imports do not receive preferences. But the degree to which exporters in the developing countries were able, or chose, to make use of the GSP (the utilization) ratio does not answer the question of the GSP's significance in meeting its goals of export promotion, industrialization and growth. First we need to ask to what extent would those exports have happened anyway and, to the extent that they would have happened, whether the GSP has resulted in a transfer of resources to the beneficiary countries, and if so how much.

69. First, let us suppose the GSP had no effect on trade volumes but merely led to a transfer of economic rent. In other words the beneficiary countries receive higher prices for their exports because they appropriate some or all of that income which would otherwise revert to the importing country in tariff revenues.

70. Since 1976 the value of GSP preferential imports into the OECD countries has increased in current dollars from $8.9 billion to $56.0 billion in 1991. If we take, as rough orders of magnitude, 8 per cent and 5 per cent as the average tariff preference on GSP imports into the preference-giving countries in 1976 and 1991 respectively, and assuming no trade volume effects, this gives a transfer to the developing countries of $712 million in 1976, rising to $2.8 billion in 1991. If this is deflated by the index of export unit values of manufactures, we find that in 1980 prices the transfer would have doubled from $1.1 billion in 1976 to $2.5 billion in 1991.

71. Of course, the primary goal of GSP is to promote export volumes but, nevertheless, these figures do provide an order of magnitude, both in absolute terms and in terms of growth over the years, of the overall economic benefits of the OECD GSP schemes to the developing countries.[28] However, they ignore the dynamic effects. Supposing these numbers were trebled to take into account

the dynamic effects, we would have the GSP benefits rising from $3.3 billion in 1976 to $7.5 billion in 1991. This is to be set against total beneficiary country exports to the OECD of $18 billion and $268 billion in the two years at 1980 prices.

72. These estimates are extremely crude. A number of studies have sought to elaborate much more precise estimates of the economic effects of the GSP. These have been reviewed by Craig MacPhee for the UNCTAD GSP Study Programme.[29] He opts for a range of estimates for the increase in the value of beneficiary trade, including both trade creation and diversion, of 7 to 22 per cent of preferential exports or, extrapolating to 1992 preferential trade figures, $5.6 billion to $17.5 billion. This excludes any rent transfers but does not net out the resource costs of extra production. They are quite consistent with the much cruder estimates given in paragraph 71. Interestingly he quotes a number of studies which broadly agree that the Tokyo Round has cut the trade effects of the GSP roughly in half.

73. In a more recent paper MacPhee and Oguledo[30] examine further the experience of countries which have been denied access under the United States GSP through the competitive needs criteria. In particular, they used regression analysis at the TSUSA tariff line level, with the change in the share on the United States market of the country experiencing a loss in GSP access as the dependent variable, to estimate the effects of the rise in tariffs. The coefficient of the (elasticity-weighted) tariff increase was lower than expected though statistically significant.

74. The GSP Study Programme also examined in some detail the contribution of the GSP to exports, industrialization and growth in a number of specific countries. These should be considered alongside the studies, sponsored by UNCTAD and ESCAP,[31] of the effects of product graduation in the four countries in South East Asia and the effects of these graduations on neighbouring countries. In the earlier study the trade effects generally broadly fell within the 7 to 22 per cent range of covered exports though this translated into only 2 per cent of total exports for Brazil and Malaysia and 4 per cent for the Republic of Korea. The evidence on the effects of the GSP on industrialization was based on indirect sources, or at best survey results. The conclusions were that enhanced export earnings had permitted increased investment but that it was hardly possible to be more precise about the specific role of the GSP.

75. The graduation study considered the experiences of the four countries which have been arguably the most constrained by quantitative restrictions, both TQs and product graduation, in their access to the benefits of the EU and United States schemes. Theoretically graduation will reverse the trade creation and diversion effects of preferences. Competitive producers should experience additional benefits both in terms of higher prices and increased export volumes and these, in turn, should lead to induced dynamic gains through economies of scale, investment and the transfer of technologies and skills.

76. The studies looked at the experience of individual products and found that product graduation (and TQs under the EU scheme) led to a loss of market share. However it did not lead to an enhancement of the exports of less competitive beneficiaries, but rather it was the advanced industrial countries or other major beneficiaries that gained. When country/territory graduation excluded Singapore, Hong Kong, the Republic of Korea and Taiwan Province of China from the United States scheme, the shares of Indonesia, Malaysia and Thailand in both covered and preferential imports rose, and they rose faster than these countries' shares of total United States imports. Examination of individual products supports the conclusions from the overall statistics.

77. The conclusions to be drawn from this section are:

(a) Imports to the value of nearly $80 billion are imported under the various GSP schemes. The share of imports from the third world has kept up with total OECD imports from the third world, but less than 25 per cent of those imports now receive GSP treatment.

(b) Product coverage has generally widened - as well has knowledge about the schemes - but these have largely been offset by the growth of TQs and other restrictions on the availability of the GSP. Utilization rates - the shares of covered imports receiving GSP treatment - have even fallen somewhat.

(c) The benefits of (at least) the major schemes are still concentrated among a small number of countries. Expanding coverage would have a major impact through spreading the benefits much more widely. This is particularly the case with the United States scheme where products of major export significance to a wide range of developing countries are excluded.

(d) The least developed countries do somewhat ess well than the other beneficiary countries from the OECD schemes taken together. They do particularly badly out of the United States scheme - largely because it excludes most textile products - and relatively well out of the EU scheme, though the latter includes relatively few LDCs when the ACP States, whose exports qualify for significantly better conditions of access, are excluded.

(e) In the United States scheme, for which the calculation was done, the actual savings in tariff payments for all beneficiary countries was only $683 million, 0.7 per cent of United States imports from these countries. With full coverage of all imports, the savings would have been seven times greater. There is no reason to suppose that for the GSP schemes taken together the factor would have been greatly different.

(f) The value of the GSP is more than the value of the tariff savings on beneficiary exports. There will be both trade creation and trade diversion. Studies suggest that the trade gains will amount to between 7 and 22 per cent of preferential exports or, extrapolating to 1992 preferential trade figures, $5 billion to $17 billion. This only amounts to between 1.1 and 3.7 per cent of third world exports to the OECD countries.

(g) However, the importance of the GSP may be more at the individual product level than at the macro-economic level. The vast array of restrictions and conditions covering the major schemes, in particular those of the EU and the United States, and the falls in preference margins as MFN tariffs have been reduced, limit the measurable effects on overall trade flows. But at the micro level the GSP may influence market shares, and have effects on investment and industrialization, and on employment in the manufacturing sector, though again these will be small and difficult to identify at the economy-wide level.

(h) Graduation, by product or by country, will reverse the gains from the original preferences. There is also evidence that graduation does not significantly help the smaller and less-competitive producers, but that the main gainers are other large and competitive beneficiaries and the advanced industrial countries.

V. ISSUES AND PROPOSALS

A. Security

78. One of the perennial complaints about the way in which the GSP schemes are managed is the lack of a sufficient horizon that would permit investment projects to be undertaken with confidence that GSP benefits would still be available on the products of the investment over a number of years. It certainly militates against long-term planning by both importers and exporters. The details of most schemes are re-examined from year to year. Unfortunately for potential investors, the devil is in the detail. The three major schemes, those of the European Union (EU), United States and Japan, are currently being renewed on an annual basis. The lack of certainty that particular products will remain within a particular scheme, or the scheme itself will continue in existence over some future period, is additional to the unpredictability associated with changing tariff quotas or ceilings.

79. **Proposal**: All schemes should last for five years, during which period the only changes would be the extension of product coverage, reclassification of countries into or out of the LDC group, the graduation of beneficiaries according to internationally agreed criteria (see section V.E below), the graduation of country-product pairs, and the withdrawal of GSP coverage through the safeguard procedures. The exact mechanisms whereby these changes take place would be published at the beginning of each five-year period.

B. Product coverage

80. Table 1 gives some indication of the range of policies with respect to product coverage. Unfortunately many of the excluded products are just those in which the developing countries have a comparative advantage and, in many cases, have demonstrated export capability; in particular textile products, leather products, certain semi-processed and processed agricultural goods, some steel, chemical and electronics products. In the first three of these groups, many LDCs have shown export potential.

81. On the whole it is the larger schemes, those of the EU and the United States, that have the greatest range of excluded products. In both cases temperate agricultural products are in the main outside the GSP. Many countries, including the United States, exclude textile products, even where imports are comprehensively limited by the Multifibre Arrangement.[32]

82. Although the emphasis on improving product coverage has been in the agricultural sector, this sector is still not adequately included in the GSP. The inclusion of a larger number of agricultural products would significantly enhance the usefulness of the GSP, particularly to the least developed countries and many other developing countries. The proposed tariffication of agricultural trade should allow the GSP to be extended to new

products. Initially the tariffs on certain temperate agricultural products will be very high, in some cases well over 100 per cent, and there may be a justification for maintaining non-zero GSP rates until the MFN rates are reduced to more normal levels (see section E below).

83. However, extension to certain temperate agricultural goods need not await tariffication of the main products. The EU has recently granted tariff- or quota-free access for certain agricultural goods and quota-free access for certain sensitive products, conditions of access close to those previously reserved for the LDCs, to four Andean countries, and to a lesser extent, to six Central American countries. The extension to Bolivia, Colombia, Ecuador and Peru of tariff-free and quota-free access, subject to a safeguard clause (invoked in 1992 on Colombian carnations), for a wide range of meats, vegetables, fruit and flowers, shows that considerable broadening is possible, even under existing CAP regimes.

84. **Proposal**: Product coverage should be extended by preference-giving countries to the greatest extent possible. In particular:

(a) As trade in temperate agricultural products, horticultural products and processed food products is tariffied rather than managed through NTBs, those products should also be included in the GSP schemes;

(b) There is no justification for exempting large areas such as textile products or leather goods;

(c) The special access to the EU markets which has been granted to Bolivia, Colombia, Ecuador and Peru should be extended to all the beneficiaries of the EU GSP scheme;

(d) Exclusions should only be justified on the basis of serious injury to the domestic industry and a report should be published explaining how such a determination was reached. At the start of each five-year scheme they should be limited to three years. An extension for the remaining two years should be justified by a further published report.

C. Depth of tariff cuts

85. A number of GSP schemes restrict the margin of preference to less than 100 per cent. With the benefits of GSP preferences in any event being eroded by multilateral agreements on reductions in MFN rates and by the proliferation of customs unions, free trade areas and other forms of restricted preferential agreement, the needed remodelling of the GSP dictates that margins should normally be 100 per cent, i.e. full exoneration from tariffs.

86. This should be the norm for agricultural as well as industrial products. However, the tariffication of barriers to agricultural trade under the Uruguay Round agreement will initially mean very high tariff rates, in many cases over 100 per

cent. In these cases the preference margin implied by tariff-free entry under GSP might lead to unacceptable volumes of imports from the beneficiary countries, encouraging a protectionist reaction and giving misleading signals through encouraging developing-country producers to over-concentrate resources on particular products.

87. In these cases some temporary exception to the 100 per cent rule may be justified. However, even were the preference margin restricted to say 30 per cent of the MFN tariff, inflows of certain products, for example meat from Latin American beneficiaries, could threaten the whole intent of the liberalization process. In these cases, rather than resorting to TQs or not extending the GSP schemes to these products, a temporary system of country-product pair suspension for the most competitive producers, along the same lines as that proposed for country-product graduations, would be preferable.

88. The other case where exceptions to the norm of completely tariff-free access under GSP are justified is where the preference-giving country also meets the criteria for being a beneficiary under the GSP schemes. However it would be preferable for these countries to adopt the 100 per cent preference margin norm except in the case of very sensitive products.

89. **Proposal**: Complete tariff-free entry under the GSP should be the norm. The two cases where exceptions appear justified are (i) in the cases where agricultural trade barriers are tariffied leading to very high tariff rates in the short term, and (ii) for sensitive goods where the preference-giving country itself qualifies as a beneficiary country for other schemes.

D. Safeguards, quantitative restrictions and product graduation

90. Despite some clear distinctions in their original purposes, it is now not always easy to distinguish those quantitative restrictions which are aimed at protecting the domestic industry in the preference-giving country from those designed to withdraw GSP benefits on particular products from those countries which are deemed to have reached a stage where they are no longer justified. In any event they all contribute to unpredictability and discourage long-term planning and often investment. This unpredictability extends to goods already produced, or even consignments already shipped, since the traders do not know whether a particular tariff quota, ceiling or threshold will be met before their goods reach the importing country.[33] The uncertainty may also affect a country's total export earnings if it is dependent on only a few export products and needs the preference margin to sustain its exports.

91. Since the inception of the system, preference-giving countries have reserved the right to resort to the safeguard mechanisms close to those envisaged under Article XIX of the GATT when their domestic industries are endangered. However, preference-giving countries have generally resorted to country-

and product-specific limitation on access to GSP benefits, which tend to become entrenched, rather than to safeguard actions, which, by their very nature, are supposed to be temporary expedients to allow domestic producers to adjust to surges in imports resulting from the GSP.

92. The rationale offered for the use of these quotas and ceilings has been that they ensure an equitable distribution of benefits among beneficiaries. However, empirical evidence shows that limits to tariff-free entry into the EU on products exported by the more competitive developing countries have not resulted in increased exports by developing countries at a lower stage of industrialization.[34]

93. The United States competitive need limitations are intended to reserve the benefits of the programme for the less competitive producers. However, empirical evidence shows that the least developed countries and other relatively small beneficiaries do not benefit from competitive need exclusions. The benefits have accrued largely to non-GSP suppliers and some major GSP beneficiaries.[35]

94. The widespread use of tariff-quotas by the EU scheme and competitive needs limits by the United States scheme does more than any other constraint on the various GSP schemes to reduce the overall share of covered goods which actually obtain preferential access and, in doing so, frustrate the original goals of the GSP. The EU Commission has made some far-reaching proposals for eliminating all quantitative restrictions while maintaining a sufficiently large margin of preference to make it worthwhile for traders to use the system, and at the same time allow the sensitivity of the product and the competitiveness of the exporting country to be taken into account.[36]

95. The proposal is that non-sensitive products be admitted tariff-free but that the reduction in the MFN tariff on sensitive products would be variable, though whether it could vary among beneficiaries as well as among products is not clear. Where country-product pairs cannot be accommodated in either category, either because the product is so sensitive or because it is not possible to reduce the tariff and still give an acceptable margin of preference, that country-product pair would be excluded from the GSP, though other indicators, such as non-GSP trade performance and per capita income would be taken into account.

96. These proposals raise a number of difficulties. It seems that, particularly following the success of the Uruguay Round negotiations, tariffs on many products will be in many cases so low that anything less than tariff-free entry threatens to reduce GSP uptake significantly. The bureaucratic and other conditions, in particular the rules of origin, would not be compensated by the preference margin. Secondly, the criteria for treatment of country-product pairs appears too complex, too opaque and too arbitrary, though the arbitrariness could be mitigated by explicit ways of combining the criteria. However, the proposed mechanism

would hardly serve to reduce the unpredictability of the system. It is not clear how long any allocation of a country-product pair to a reduced or no-preference margin is intended to last. The longer the period, the less the uncertainty but also the less the flexibility to changing circumstances.

97. The trade-off between predictability and flexibility is, of course, inherent in all proposals. Any mechanism should, as far as possible, avoid the exclusion of, or introducing quantitative limits on, country-product pairs during the life of a scheme (for which five years is proposed - see section A above). Where that is inevitable, it should be done through a safeguard procedure, under which the preference-giving country demonstrates that its domestic industry is actually suffering serious injury and the exclusion is limited in time.

98. **Proposal**: Each scheme should, on announcement of the details of the scheme for the next five years, distinguish:

(i) non-sensitive goods;

(ii) sensitive goods for which a preference-giving country is only prepared to give limited GSP access.

Category (i) would include the great bulk of products and would receive tariff-free access for all beneficiary countries (except where the preference-giving country was itself a beneficiary country - see section V.E below). Category (ii) would be managed in the same way by all preference-giving countries. The goal should be a mechanism as transparent, objective and predictable as possible. Quantitative restrictions should be avoided. LDC suppliers should not be subject to limitations, i.e. all LDC exports should be eligible for GSP-treatment. One possible mechanism is outlined in annex II.

E. Country graduation

99. From the outset of GSP the developing countries were never a homogeneous group but were clearly differentiated by income and economic growth performance. Their common problems and aspirations were such, however, that there was a consensus that they should be treated alike, with the important exception of the special regimes designed for the LDCs. Since the 1960s the economic performance of the beneficiary countries has been very varied. Some of the dynamic and competitive economies now enjoy per capita incomes in excess of those in several preference-giving countries, particularly those in Central and Eastern Europe. This has led to exclusion from various schemes of particular categories of goods from certain countries. It has also led, in the case of the United States scheme, to the exclusion of four countries, and to suggestions that country graduation should be a common feature of GSP schemes.

100. The practice of excluding countries from GSP benefits has proliferated in the 1980s. The criteria have been adopted unilaterally by preference-giving countries and have been, in several instances, of a non-economic nature, or have violated the principles of non-discrimination and non-reciprocity. Unilateral and often shifting criteria have rendered the system unstable and have reduced its value to preference-receiving countries. Even apparently objective criteria for graduation have shortcomings. For example, while high per capita GNP may appear to be an objective criterion for evaluating GSP benefits, the country in question may not have succeeded in developing a strong and diversified export base (as is the case with some relatively high-income oil-exporting countries), which is, after all, one of the objectives of the GSP.

101. **Proposal**: The principles that should underlie the graduation process are:

(a) Graduation should be primarily based on the level of per capita income;

(b) The per capita income should be qualified by a criterion demonstrating sufficient economic diversity (of production or commodity patterns of exports) in order to avoid graduation in cases where a country depends heavily on world market conditions for a few products;

(c) The per capita income criterion should be further qualified by a minimum average growth rate over the past few years to ensure that graduation does not ensue from a fortuitous and short-term rise in export prices or some other temporary factor;

(d) The same graduation criteria should be agreed and applied by all preference-giving countries;

(e) The criteria should be chosen with a view to simplicity and transparency. Only criteria based on trade and other economic considerations should apply. The implications of one possible set of criteria are shown in annex II.

F. Rules of origin

102. A report by the UNCTAD secretariat on rules of origin is available (see TD/B/SCP/8).

103. Many beneficiary countries find the rules of origin requirements complex and, in many cases, over-restrictive. The diversity of rules means that market access is restricted. The rules thus impede the achievement of GSP objectives. The solution lies in the implementation of proposals for harmonization, liberalization and simplification, which have already been agreed in principle during past UNCTAD discussions.

104. The rules also fail to take account of the increasing share of intra-industry trade and the growth of outward-processing, off-shore assembly and other valid forms of international specialization. This would be partially rectified by expanding the opportunities for cumulation. These should extend to supplies from all beneficiary countries.

105. **Proposals:** The construction of a new uniform origin system for use by all preference-giving countries to meet the needs for harmonization, liberalization and simplification has already been agreed in principle in UNCTAD. This is especially urgent following the successful conclusion of the Uruguay Round and the reduction in risks of deflection of trade consequent upon reduced MFN tariff rates.

106. The new system would include full and global cumulation, including inputs from the preference-giving country (so-called donor-country content), which should be adopted by all preference-giving countries.

G. Non-tariff barriers

107. A recent study[37] identifies the extent of non-tariff measures (NTMs) affecting GSP-covered trade, using UNCTAD's data base on Trade Control Measures. GSP TQs and other restrictions are not included.

108. Imports under the GSP were found to confront a wide variety of barriers. Overall 21.3 per cent of GSP-covered imports into the major preference-giving countries faced non-tariff measures falling into the broad definition,[38] 16.5 per cent under the narrow definition[39] and 15.4 per cent for quantitative restrictions alone. The most seriously affected sectors were iron and steel products, fuels (though petroleum products were excluded from the analysis), textile products and non-manufactured food items. Among the preference-giving countries, the EU, Switzerland and New Zealand subjected their imports to the most extensive range of barriers, though Switzerland is only in this group because of its extensive use of automatic licensing.

109. Some of the NTMs controlling access to the major developed country markets, including those on iron and steel products, have already been eliminated or significantly softened. The successful completion of the Uruguay Round will further reduce the extent to which GSP-covered imports are subject to these barriers. In particular the tariffication of agricultural trade will reduce those confronting the temperate agricultural products. The phasing out of the MFA will, within ten years, eliminate those on textile products. New disciplines governing anti-dumping and countervailing actions will help as will the phasing out of unwarranted safeguard-type QRs, including VERs.

110. Nevertheless it will be many years before the Uruguay Round agreement takes its full effect on those NTMs which it covers, and beyond that point there will be a residual body of NTMs

restricting the market access of GSP-covered goods. Anti-dumping and anti-subsidy actions, even under the tighter disciplines, may well expand in number in response to the new constraints on the use of grey area measures such as VERs. There may also be a surge in GATT-consistent safeguard actions.

111. **Proposal**: Preference-giving countries should exempt GSP-covered imports from non-tariff measures and refrain from imposing new ones, even where such measures will in any event be phased out over time owing to agreed multilateral liberalization.

H. Least developed countries

112. At present each preference-giving country has its own list of LDCs though there has been a trend towards including all the 47 countries on the United Nations Economic and Social Council list (see table 1). There is far more disparity when it comes to the inclusion of non-sovereign countries and territories. It would be useful if the Economic and Social Council were to extend its classification to all countries and territories meeting the economic criteria.

113. Dutiable imports from LDCs, even though relatively small compared with total dutiable imports of OECD preference-giving countries, are still a significant share of total imports from LDCs into the OECD countries. Coverage could be extended to all the exports of the LDCs, as is already the case for certain schemes, with no significant cost in lost tariff revenues or threat to domestic industries. Full and global cumulation is proposed for all GSP imports (section F above). It is particularly important that full and global cumulation be allowed to the exports of the LDCs as regards their exports which incorporate inputs from all other beneficiaries. In addition, they could be treated more favourably as regards the process and percentage requirements of rules of origin.

114. It seems that the outcome of the Uruguay Round will not be particularly favourable to the LDCs. Indeed tariff offers as they stood in November 1993 were such that the trade-weighted average tariff reductions on developed-country imports amounted to 38 per cent for imports from all sources, 32 per cent for imports from developing countries other than the least developed and only 19 per cent for imports from the least developed.[40] These figures have to be taken with caution - they do not take account of the final tariff offers, they are heavily influenced by textiles and clothing and fish and fish products (indeed when these are excluded there is no significant difference between the different country groupings) and, most important, they do not take account of the elimination of MFA quotas which is of great potential benefit to the least developed countries. Despite these caveats, the figures show that, at least in terms of tariff barriers, the Uruguay Round will bring no special favours to the least developed countries and it is important that reforms of the GSP should redress this balance in-so-far as this is possible.

115. **Proposal**: Preference-giving countries should harmonize their lists of LDCs by including all those designated by the United Nations Economic and Social Council, plus those other countries and territories who meet the same economic criteria but are not included on that list. All the exports of the LDCs should be eligible for GSP treatment even where some of these may not be covered for other beneficiaries. The rules of origin should be made less strenuous for the LDCs. Full and global cumulation should be permitted, including inputs from the preference-giving countries (see section F above[41]).

I. Consultation and conciliation mechanisms

116. Even though the various GSP schemes are autonomous in the sense that the preference-giving countries retain the right to modify the modalities or withdraw their offers entirely, mechanisms for consultation and conciliation between the preference-giving countries and the beneficiaries, would enhance the value of the schemes, their transparency and the apparent fairness of the system.

117. It would be valuable if the preference-giving countries were to publish their proposed schemes (the details of which, under these proposals, would in most important respects be determined in advance for each five-year period) as green papers some months before their final adoption and invite (i) comments from the UNCTAD Special Committee on Preferences, and (ii) comments from and consultations with beneficiary countries.

118. These consultations between donor and beneficiary countries on the details of individual schemes need to be refined and, to some extent, formalized. One possibility is that, where there are disagreements between preference-giving countries and beneficiary countries over substantive issues (rather than particular instances of interpretation) regarding the rules of origin or the exclusion of particular products from GSP or other features of particular schemes, the Special Committee could attempt, either on its own or through establishing appropriate subcommittees, to mediate these disputes.

119. In addition where there are complaints from enterprises in the beneficiary countries, who are denied preferences on the grounds of the administration of rules of origin or other conditions, these should lead, firstly, to bilateral consultations between the two governments. If the disagreement is not resolved through consultations, the matter should go for conciliation or mediation, perhaps to a panel set up by the Special Committee. At all events it is critical that the procedures are fast and not unnecessarily legalistic, and that long and expensive legal procedures are avoided.

120. **Proposal**: The preference-giving countries should accept harmonized procedures for consultations and dispute settlement.

121. Proposals for forthcoming schemes should be published in advance and comments sought from the Special Committee on Preferences and from beneficiary countries through harmonized procedures. Simple, inexpensive and harmonized procedures for settling disputes on the administration of schemes should be agreed among all preference-giving and beneficiary countries.

J. Parallel measures for services

122. The importance of services trade to the current account balances of the developing countries is steadily growing. Data for 1991 show total service credits for all developing countries of 28 per cent of revenues from the exports of goods. For a number of mainly small, mainly island nations, travel revenues alone exceed export revenues, often many times over. Factor income receipts also constitute a large balance of payments contribution in many developing countries.

123. Taxes on factor incomes arising in the case of service imports, whether they be income taxes on foreign workers remittances to their home country or corporate taxes on repatriated earnings, are analytically equivalent to tariff barriers. Similarly, prohibitions on the repatriation of earnings or government procurement restrictions are analytically equivalent to non-tariff barriers.

124. Some tentative suggestions are made about how the services exports and factor income receipts of the developing countries could be strengthened by preferences analogous to the GSP. The following are possible mechanisms for giving preferences to the service exports of the developing countries:

(a) Tax relief (including VAT) on inputs into developing country subsidiaries and branches in the developed market economies (DMEs);

(b) Tax relief on repatriation of foreign workers earnings;

(c) Government procurement liberalization, beyond that envisaged in the Uruguay Round agreement, including a lower threshold, so that developing-country enterprises can bid on the DME domestic and overseas development projects around the world;

(d) Sector-specific measures to help developing country exports of off-shore services, e.g. provisions to allow private or public health insurance to buy medical services in the developing countries, many of which are now in a position to supply both out- and in-patient treatment of comparable quality to the DMEs. Another sector that has already been developed, although there is considerable scope for further expansion is data processing;

(e) Going beyond the General Agreement on Services to open domestic services markets in the DMEs to access by the developing countries. Concessions could be targeted on such areas as air transport, shipping and construction;

(f) The DMEs could enter into agreements with the developing countries to enable them to better plan human resource development in such areas as medical education and nurses training, where the developing countries already do or could supply trained personnel on a temporary basis to the DMEs.

K. Parallel measures for foreign direct investment

125. It has always been understood that the GSP could have its most powerful impact through encouraging investment, both domestic and from foreign sources, in new and expanding export sectors in the developing countries. Indeed this is critical if the GSP is to play a substantial role in the integration of developing world into a trade-investment system where transnational companies look to optimize the location of their production facilities in the context of a global, or at least a regional, market.

126. Implementation of the proposals made in this report would, in any event, encourage investment in GSP-benefitting sectors by promoting confidence that those benefits would only be withdrawn in exceptional, clear and generally predictable circumstances. But when framing proposals to boost the effectiveness of the GSP, it is appropriate to stress the need for parallel measures to expand investment.

127. **Proposal**: the preference-giving countries should consider harmonized mechanisms for encouraging direct foreign investment in the developing countries through:

(a) Fiscal incentives including special depreciation provisions on investments in developing countries;

(b) Support for investment in export industries through technical assistance in consultancy, training and similar initiatives;

(c) Technical assistance in trade-related areas, especially concerning trade finance and export credit insurance, trade intelligence and trade promotion activities, and in the framing of foreign investment codes where appropriate.

128. To prevent competitive bidding between developing countries for inward FDI through more and more fiscal and other incentives, strict adherence to the World Bank FDI guidelines is necessary. If required, these should be further developed to prevent or, at least restrict, the competitive bidding up of investment incentives, such as tax holidays and management inducements. Such inducements lead to serious revenue losses and additional expenditures by the bidders while distorting the inter-country, and probably the intra-country, allocation of investment.

L. Central and Eastern European country schemes and possibilities for new GSP schemes

129. Poland, the Czech Republic, Slovakia, Hungary, Bulgaria and the Russian Federation have operational GSP schemes. Ukraine is planning to start a scheme. Data on the values of imports from the developing countries which have benefited from these schemes are not available.

130. The Polish scheme has established a general margin of preference of 30 per cent, i.e. tariff rates on eligible imports will be 30 per cent lower than the base MFN rates. Zero tariffs are applied to tropical products and to the exports of the least developed countries. A list of products excluded from GSP treatment includes sensitive agricultural products, textiles, alcoholic beverages, tobacco products and luxury goods. Eligible developing countries are those outside Europe where per capita GDP does not exceed that of Poland.

131. The GSP of the former Czechoslovakia applied to 124 developing countries. The Czech Republic has adopted the same rules for its scheme. In general tariffs on eligible imports are levied at 25 per cent of MFN rates, except for imports from the least developed countries which are admitted tariff-free. Most tropical products - very broadly interpreted - enter tariff-free. Sugar and tobacco are not eligible for GSP treatment. Slovakia has said that it will also apply the modalities of the former Czechoslovakia scheme.

132. Hungary has a three-column tariff schedule defining GSP rates for each heading. It has recently reduced to zero tariffs on 41 tropical products and reduced the preferential rates on a further 44. Exports from the least developed countries in any event receive tariff-free access to the Hungarian market.

133. The Bulgarian scheme applies a 50 per cent tariff reduction to beneficiaries, with full exemption in the case of LDCs. Very few products are excluded from the scheme.

134. The Russian Federation scheme previously provided for GSP tariffs of 50 per cent the equivalent MFN tariffs for eligible developing countries, and zero tariffs for exports from the least developed. Pending the publication of a new tariff schedule, imports from all beneficiaries are currently zero-rated but sensitive products are subject to tariff quotas. Only a provisional list of eligible developing countries has so far been adopted.

135. These schemes can help the restoration of old trade links between the South and the East, which have been damaged over the last few years, as well as the building of new links.[42] In the past the GSP schemes of the former socialist countries were not

of great significance because prices did not play an important role in determining the origins of imports. Now, with the introduction of price sensitivity in import decisions, these GSP schemes will become more meaningful.

136. The schemes of the Central European countries (Poland, the Czech Republic, Slovakia, Hungary and Bulgaria) will all be affected by the gradual liberalization of trade with the EU through the Europe Agreements. These agreements foresee the gradual elimination of tariffs on EU exports, which will place them on the same or a better footing than those of the developing countries. Agreements between the Central European countries and EFTA will broadly speaking have the same result.

137. These schemes are an object lesson for the developed market economies in their comprehensiveness in terms of product coverage and their lack of ceilings or other quantitative constraints. There does not appear to be any serious reason to object to the Polish rule that eligible developing countries are those with a lower per capita GDP (as measured by the United Nations) than that of the preference-giving country. The existence of the schemes also serves as a precedent in countries that are both GSP donors and GSP beneficiaries. The higher-income and more industrialized former socialist countries in transition should be also encouraged to establish GSP schemes, if they have not already done so. Beneficiary countries may be limited to those with per capita GDP less than that of the preference-giving country.

138. **Proposal**: The higher-income former socialist countries, which have not already established GSP schemes should be encouraged to consider establishing such schemes. The beneficiaries of such schemes could be restricted to those developing countries with lower per capita GDP than the preference-giving country.

M. The Central and East European countries as GSP beneficiaries

139. Extending GSP status to the former socialist countries of Central and Eastern Europe cannot but mean an increase in competition for the exports of the developing countries, particularly on Western European markets, since these are now the main export markets of the Eastern and Central European countries. Two of the Central European countries, Poland and Hungary, have already featured among the EUs top ten GSP beneficiaries, to a large extent because of the weight of non-sensitive products in their export mix. However, the GSP will help develop the export markets of the former socialist countries outside Europe, although the areas of competition between South and East on donor country markets will be limited.

140. Firstly, the Central European countries are no longer covered by the EU GSP scheme since they have agreed generally more favourable conditions on market access with the EU as part of the so-called Europe Agreements.[43] These agreements are more comprehensive in product coverage than the EU's GSP scheme. When they are fully operational, all non-agricultural exports of the

Central European signatories will enter the EU free of tariff and non-tariff barriers. One area of concern to the developing countries may be the speedier elimination of MFA quotas under the Europe Agreements than the ten years for developing country suppliers agreed in the Uruguay Round. The temporary tariff advantages of the Central European producers could enable them to establish lasting gains on the EU market at the expense of the developing-country producers.

141. As for the former Soviet Union Republics, the benefits of GSP access will be limited because of the weight in their exports of natural resource products which bear zero MFN tariffs, the exclusion from GSP of agriculture, textile (in most cases) and iron and steel products, and the widespread use of TQs to limit GSP access. (For a more detailed discussion see annex III.)

142. **Proposal**: All GSP schemes should include as beneficiaries those former socialist countries which satisfy the agreed economic criteria (see section E). No special conditions of access or eligibility should be required of the countries in transition. The EU should review the provisions of the Uruguay Round agreement in the context of the commitments made in the Europe Agreements to accelerate the removal of MFA tariffs for the Central European countries. The sequencing of the expansion and elimination of MFA quotas on textile products should be determined with a view to avoiding putting the developing country producers at significant, even if temporary, competitive disadvantage vis-à-vis the Central European producers.

N. Technical cooperation linked to the GSP, UNCTAD Technical Cooperation Programme on the GSP and Other Trade Laws

143. In 1972, immediately after the implementation of the GSP schemes in the early 1970s, UNCTAD launched an inter-regional GSP project with financial support from UNDP which continued funding the project until 1982. In 1984, UNCTAD set up the Technical Cooperation Programme on the GSP and Other Trade Laws directly affecting exports of developing countries, which is solely financed by funds in trust from UNCTAD member States. Pursuant to paragraph 19 of Conference resolution 159 (VI), of July 1983, the Programme's mandate was extended to include trade law aspects. Thus, the Programme is regarded as one of UNCTAD's oldest technical assistance activities.

144. The main activities of the Programme are:

(a) To publish individual handbooks on the GSP schemes and other trade laws thus far of OECD preference-giving countries;

(b) To organize national and regional seminars or workshops on GSP and other trade laws all over the world;

(c) To provide technical support in setting up GSP focal points at the national level through country projects and advisory missions;

(d) To backstop national and regional GSP projects; and

(e) To answer any enquiries on the implementation of GSP schemes.

145. Despite constant financial constraints, the Programme, in 1992, undertook 58 activities including 22 seminars/workshops and 16 advisory/consultation missions. In all, 853 participants from 20 preference-receiving countries benefited from these activities. In 1993, many training activities were carried out. However, for lack of funds there are still 26 outstanding seminar requests.

146. The demand for seminar/workshop activities is expected to grow for the following reasons:

(a) Some preference-giving countries have granted or plan to grant GSP beneficiary status to countries in Central and Eastern Europe and to CIS countries;

(b) Advanced beneficiaries are requesting workshop-type activities on trade laws such as anti-dumping and countervailing duty actions;

(c) Many GSP schemes are expected to be revised substantially now that the Uruguay Round has been concluded and following the recommendations of the Special Committee on Preferences foreseen in the Cartagena Commitment (see para. 5);

(d) Least developed countries are becoming more capable of taking advantage of GSP benefits.

147. As there has been a decline in the resources available to the GSP technical cooperation programme, the last Special Committee on Preferences, in its Chairman's summary, underlined that, with a view to meeting the growing number of requests, every possible opportunity for fund-raising should be explored. In line with this, the Programme has been approaching all potential and actual donor countries to make a contribution. All relevant information on GSP technical assistance is contained in the Annual Report to the Special Committee on Preferences.

148. **Proposal**: Preference-giving countries should respond positively to requests for contributions to the technical cooperation programme.

VI. THE EFFECTS ON THE PREFERENCE-GIVING COUNTRIES OF ADOPTING THE MAJOR REFORMS

149. This section makes no attempt at a comprehensive evaluation of the effects which the adoption of the proposals in this study would have on the preference-giving countries. Clearly, one would expect to see improved economic performance of the developing countries through higher levels of exports, partly through faster export diversification and greater inflows of foreign direct investment. But the extent of the impact which the GSP, even in the comprehensive form that this study advocates, could have on the economies of the beneficiary countries is open to question. Suppose we take the value of 1991 preferential exports of beneficiary countries to the OECD member States, i.e. $64 billion. If, as a very crude approximation, the ratio of the potential duty saved under full coverage to actual preferential imports in the United States industrial imports case (see table 15) is assumed to hold for all OECD preferential imports and we take the multiplier, whereby a reduction in tariffs leads to a three-fold rise in export volumes (see paras. 71-72), then the trade gain would amount to some $63 billion or 16 per cent of OECD imports from the developing countries.

150. This suggests that a sudden move to a fully comprehensive GSP might eventually mean a 16 per cent growth in developing-country exports to the OECD countries. What this would mean - in terms of damage - to the domestic industries of the OECD countries, to their unemployment rates and, the other side, to their increased consumer welfare could only be estimated by a huge general equilibrium model. Even if such a model existed, the results would be controversial. In any event, speculation on the results goes beyond the terms of reference of this study.

151. But clearly the beneficiary countries would require time to exploit the gains from a shift to a more comprehensive and liberal GSP. This would enable the developed market economies to smooth the process of adjustment through retraining schemes, early retirement and so on.

152. The budgetary cost to the donor countries of such a move to a fully comprehensive GSP can be estimated with a somewhat greater measure of certainty. Table 14 shows that the cost in lost tariff revenue to the United States Treasury of 100 per cent coverage would amount to an additional cost in lost tariff revenue of $3.8 billion. This is to be set against a general government deficit in 1991 of around $200 billion.

153. In the case of the European Union (EU), the total budgetary cost of a fully comprehensive GSP on industrial products would have been $6.3 billion in 1991 (see table 13). The general government borrowing requirement of the EU in 1991 was $302 billion.

VII. CONCLUSIONS

154. Over the years since its inception, the generalized system of preferences has provided useful benefits to the developing world, but has hardly lived up to its original promise. Potential gains have been eroded by falling preference margins as tariffs have come down in successive rounds of multilateral negotiations. Secondly, quantitative restrictions on the preferential imports of a given product from a given exporter have increasingly characterized the two largest schemes, those of the European Union (EU) and the United States. On the other hand, the schemes have generally benefited from gradually increased product coverage.

155. The three basic principles of the GSP - generality, non-discrimination and non-reciprocity - have been increasingly infringed, the first and second through the multiplicity of mechanisms which limit the access of competitive products of particular products, or even graduate them out altogether. The third principle has been undermined through the increasing use of the GSP, or of special status granted within the schemes, as a quid pro quo for the adoption of certain policies by the beneficiary country, which may have little to do with trade or even economics.

156. Now is a particularly important time for a thoroughgoing revitalization of the GSP. The widespread development of regional blocs with preferential trading regimes among members and reduced GSP margins as tariffs fall across the board means that, unless radical improvements are made to existing GSP schemes, their benefits to the developing world as a whole will be further pared away. But the Uruguay Round agreement does present new opportunities as non-tariff barriers are replaced by tariffs, especially for agricultural goods.

157. The reforms discussed in this study cover all important aspects of the GSP. They propose the extension of the GSP to new products and the deepening of preferential margins, the elimination of quantitative restrictions and, where necessary, an alternative system for dealing with the problem of sensitive products, a system of country graduation and a liberalization of rules of origin. Three new principles inform the proposals: certainty, transparency and harmonization.

158. One of the frequent complaints among the users of the present system is that there is no certainty that the details of a particular scheme with respect to a particular product will remain the same over the following few years. In some cases, even the existence of the scheme as a whole remains in doubt. These uncertainties clearly make planning, and in particular capital investment to take advantage of the GSP, hazardous. They clearly limit the impact of the system on exports of the developing countries.

159. Secondly, the schemes, in particular the major EU and United States schemes, are shrouded in a complexity which militates against their full utilization. Thirdly, the rules of the different schemes vary markedly and such discrepancies themselves limit the extent to which exports can be planned to take advantage of more than one scheme. The proposals are intended to be acted upon jointly by the preference-giving countries so that, in all important respects, the schemes are harmonized and a single, sure, comprehensible and effective GSP results to the greater benefit of the developing world.

NOTES

1. In addition 10 non-sensitive products from the Republic of Korea and 5 from Hong Kong are excluded. Among textile products, about 70 country-product pairs are excluded and a large number have had their TQs significantly reduced, typically to 10 per cent of the norm.

2. It could even be argued that in the degenerate case where all benefits accrue as economic rents, they increase as production costs are reduced and so encourage efficient resource use.

3. See TD/B/C.5/130

4. See Report by the OECD Special Group on Trade with Developing Countries (TD/56, Annex), part two, para 11. See proceedings of the UNCTAD, second session, vol. III - Problems and Policies of Trade in Manufactures and Semi-Manufactures (UN publication, sales No. 68.II.D16).

5. Including Albania, Armenia, Azerbaijan, Belarus, Bulgaria, China, the Czech and Slovak Republics, Estonia, the Federated States of Micronesia, Georgia, Hungary, Israel, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Nauru, Palau, Poland, Republic of Marshall Islands, Russian Federation, Tajikistan, Turkmenistan, Turkey, Ukraine, Uzbekistan, Kiribati, Tuvalu, Taiwan Province of China, Hong Kong, Macau and some others.

6. Bahrain was redesignated as a beneficiary on the grounds of new revised figures on per capita GDP by the World Bank.

7. United States Mission (Geneva), Daily Bulletin, No. 19, February 1 1988, pp. 6-7

8. Three countries, Chile, Paraguay and Central African Republic, earlier excluded on the grounds that "recognized workers' rights" were being violated, have been restored as beneficiaries. Panama, excluded because it did not take action to "prevent illegal drugs from entering the United States", has been restored within the list of beneficiaries. Some other countries have been excluded because of "failure to compensate for nationalization of American property", and others were removed from beneficiary status with respect to some products because of "lack of effective protection of United States intellectual property rights".

9. See Council Regulation (EEC) No. 3912/87 of 18 December 1987, Official Journal of the European Communities, No. L 369 of 29 December 1987, p. 1.

10. See GATT document L/7205/Add.1 of 8 July 1993.

11. As a result of the introduction of the single market on 1 January 1993, all previous allotments of tariff quotas among EU member States which still prevailed up to December 1992 under the EU scheme were suppressed. The FDFA are directly administered by the Commission.

12. These are sometimes called "safeguard" limitations by the EU. They are to be distinguished from the use of *ad hoc* "safeguard" measures designed to introduce restrictions when a domestic industry comes under threat. The latter is the way in which this report uses the term.

13. The affected countries and territories were China, Republic of Korea, Thailand, former Czechoslovakia, India, Indonesia, Pakistan, Poland, Brazil, Hungary, Romania, Bulgaria, Malaysia, Hong Kong, Philippines, Singapore, Mexico, Macau, Argentina, Colombia, Libyan Arab Jamahiriya, Saudi Arabia, Sri Lanka and Venezuela.

14. In 1988, other more restrictive criteria were adopted with respect to preferential imports of textile products. In general, tariff quotas are set at 1 per cent of total Community imports of a given category of products, and at 0.2 per cent for beneficiaries considered "most competitive". The withdrawal of preferences by category occurs on the basis of a 10 per cent share of extra-Community imports.

15. See TD/B/C/5/6.

16. See TD/B/C.5/111/Add.1, Addendum to the 1988 Review by the UNCTAD Secretariat, p. 12.

17. China, Republic of Korea, Taiwan Province of China, Indonesia, Pakistan and Thailand were affected for two or more than two product groups, while Argentina, Brazil, India, Iran (Islamic Republic of), Malaysia, Peru, Philippines, Saudi Arabia and Sri Lanka were affected regarding one product group.

18. The dollar value limit was set up initially at $25 million in 1974 and amounted in 1991 to $96.4 million.

19. The minimum trade limit for 1991 was $11.3 million.

20. The difference between the text and the table derives from information on withdrawal of benefits subsequent to the data on which the table is based.

21. Committee on Ways and Means, US House of Representatives, Report to the Congress on the First Five Years' Operation of the US Generalized System of Preferences (GSP), Washington, D.C., April 1980, p. 70.

22. United States Trade Representative, A Guide to the U.S. Generalized System of Preferences (GSP), Washington D.C., Oct. 1988, p. 5.

23. The lower dollar value limit in 1991 was set at $37.4 million.

24. The President must determine that the waiver is in the national economic interest and must consider whether any United States industry is likely to be adversely affected by it. Moreover, he must also give great weight to the extent to which the beneficiary: (a) provides reasonable access to its markets and is refraining from unreasonable export practices; (b) provides adequate protection to United States intellectual property rights such as patents, copyrights and trade marks; (c) is reducing trade-distorting investment practices, such as export performance requirements and barriers to trade in services; and (d) is affording its workers internationally recognized workers' rights.

25. The developing countries have made various requests and proposals for improvements, but no significant progress has been achieved despite a considerable and convincing body of both theoretical and empirical evidence that the existing systems are in need of such improvement. The evidence contained in the studies and reports referred to in the previous paragraph, of difficulties encountered by preference-receiving countries, shows that, despite occasional changes and improvements, the original rules remain unduly restrictive in their definition of "substantial transformation" and deprive goods of GSP treatment, even though they have undergone extensive manufacturing operations. The lack of harmonization reduces the range of markets open to GSP exports, and the complexity of the rules leads to burdensome and costly administrative problems.

26. UN Monthly Bulletin of Statistics, various issues.

27. Singapore, Hong Kong, Taiwan Province of China and the Republic of Korea are not included with United States imports among beneficiaries. Former Czechoslovakia, Hungary and Poland are not included with EEC's imports from beneficiaries.

28. The notional rent gives an upper limit to the terms of trade gain of the tariff preferences to the beneficiary country. Besides that the beneficiary countries gain from producers' surplus, the revenues net of resource costs of the additional exports generated by the preference. Depending on the demand and supply elasticities, total gains could exceed the notional rent. In most cases they will be less. This has the implication that the beneficiary country could be better off with a tariff-quota restricting imports by the preference-giving country to the level that would have taken place without the preference. In practice however some of the rent will likely be appropriated by the importing agents or other middlemen.

29. A Synthesis of the GSP Programme, by Craig R. MacPhee, UNCTAD/ITP/19, 5 December 1989. For a summary see TD/B/C.5/111/Add.1, Addendum to the 1988 Review by the UNCTAD Secretariat.

30. Craig R. MacPhee and Victor I. Oguledo (1993), "Losses of Tariff Preferences and the Export Performance of Less-Developed Countries", Journal of International Development, Vol. 5, No. 2

31. ESCAP, GSP Graduation, International Trade, and Investment in the Asia and Pacific Region, UN 1992

32. The European Union does provide tariff-free entry under the GSP even where there are MFA quotas limiting access for all main developing country suppliers by detailed product group, but in this case the GSP cannot serve to expand exports beyond a certain point. Beyond that it merely creates economic rents which may be split between the producers and the importers and/or other middlemen.

33. The EU scheme is particularly unpredictable in the case of ceilings since MFN tariffs are not automatically re-imposed. Rather the Commission or a member state may ask that this be done. A similar situation pertains to the Union's reference thresholds.

34. See "The EU scheme of generalized preferences: the trade effects of quotas and ceilings", study by Matthew McQueen (UNCTAD/ST/MD/32), 16 May 1988.

35. See "Effects of competitive need exclusions and redesignations under the United States scheme of generalized preferences", study by Craig R. MacPhee (UNCTAD/ST/MD/29), 13 February 1986 and United States International Trade Commission, An Evaluation of United States Imports under the generalized system of preferences (USITC Publication 1379, Washington D.C., May 1983).

36. COM(90)329 final.

37. Don P. Clark and Simonetta Zarrilli, Non-Tariff Measure and Industrial Nation Imports of GSP-Covered Products, Southern Economic Journal, 59:2, October 1992, 284-93.

38. Automatic licensing, anti-dumping/countervailing duty actions, minimum prices/variable levies, non-automatic licensing, quota/prohibition/other restraints under the Multifibre Arrangement, voluntary export restraint agreements, import deposits/surcharges, import surveillance, state-monopoly control of imports.

39. Excludes import deposits and surcharges, anti-dumping/countervailing duty measures, automatic licensing and import surveillance.

40. An analysis of the proposed Uruguay Round agreement, with particular emphasis on aspects of interest to the developing economies, GATT Secretariat, November 1993, MTN.TNC/W/122, MTN.GNG/W/30.

41. The proposal is repeated here because of its particular significance for the LDCs.

42. Under the **Polish scheme**, tariff rates on eligible imports are 30 per cent lower than the base MFN rates. Zero tariffs are applied to tropical products and to the exports of the least developed countries. A list of products excluded from GSP treatment includes "sensitive" agricultural products, textiles, alcoholic beverages, tobacco products and "luxury" goods (i.e. gold and gold products, precious stones, jewellery and cosmetics). Eligible developing countries are those outside Europe where per capita GDP does not exceed that of Poland. Other developing countries which give Polish exports MFN treatment will receive MFN treatment from Poland, even where they are not members of GATT.

The GSP of the former Czechoslovakia applied to 124 developing countries. The **Czech Republic and Slovakia** have adapted the same rules for their scheme. In general tariffs on eligible imports are levied at 25 per cent of MFN rates, except for imports from the least developed countries which are admitted tariff-free. Most tropical products - very broadly interpreted - enter tariff-free. Sugar and tobacco are not eligible for GSP treatment.

Hungary has a three-column tariff schedule defining GSP rates for each heading. It has recently reduced to zero tariffs on 41 tropical products and reduced the preferential rates on a further 44. Exports from the least developed countries in any event receive tariff-free access to the Hungarian market.

The scheme of **Bulgaria** gives a 50 per cent preference margin, with 100 per cent for LDCs. Few products are excluded from the scheme.

The **Russian Federation** scheme previously provided for GSP tariffs of 50 per cent the equivalent MFN tariffs for eligible developing countries, and zero tariffs for exports from the least developed. Pending the publication of a new tariff schedule, imports from all beneficiaries are currently zero-rated. Only a provisional list of eligible developing countries has so far been adopted.

43. There has been a delay in the signing of the agreement with Romania. However this is likely to take place in the near future.

Annex I

A PROPOSED MECHANISM FOR ELIMINATING TQ LIMITS ON ELIGIBILITY FOR GSP TREATMENT

1. Here one proposed mechanism is outlined. It is intended to allow preference-giving countries to give unrestricted GSP access to a limited number of beneficiary exports of a particular product, where unrestricted access for all beneficiaries is ruled out because of damage to the domestic industry (group (ii) in para. 89). It is seen as an alternative to the continued use of TQs which for reasons discussed in the body of the report are inconsistent with the goals of the GSP. It is intended to be simple, transparent and fair.

2. For those products included in its GSP scheme but classified by that donor as sensitive, the preference-giving country would announce each year (year t) whether for each product GSP-eligibility would be restricted the following year, and, in those cases where there would be restrictions, the maximum acceptable levels of GSP-benefiting imports which it could accept the following year (t+1). Then, on the basis of the statistics of total imports (including non GSP-benefiting) in the previous year (t-1), the largest beneficiary supplier(s) would be excluded from GSP eligibility for that product in the following year.

3. The exercise would be repeated each year. If GSP-eligibility were limited for the same product in the succeeding year (t+2), the excluded beneficiaries would be determined solely on the basis of import data relating to year t.

4. The donor country's maximum acceptable level would be based on the perceived actual damage to domestic industry in the past. This level could be challenged by any of the excluded beneficiaries through the mechanisms established for conciliation (see section V.J).

5. The proposed system would replace all existing country-product exclusion mechanisms, including the European Union (EU) FDFA and surveillance mechanisms, the United States competitive needs mechanism and the Japanese system of ceilings and maximum country amounts.

Annex II

COUNTRY GRADUATION

1. Possible criteria for country graduation could include:

(a) per capita GDP of at least half the average of the developed market economy countries (as defined by the United Nations) for at least the latest three years for which United Nations data are available; or

(b) average GDP growth greater than 5 per cent per annum for last five years for which United Nations publishes data; and a per capita GDP of at least one third the average of the developed market economy countries; and,

(c) either an export concentration index number (as reported in the latest edition of the UNCTAD Handbook of International Trade and Development Statistics) of less than 0.87, or, where that is unavailable, a share of industry in GDP of at least 30 per cent of GDP from industry and of agriculture of not more than 30 per cent.

2. On the basis of the per capita GDP criterion, and using the data supplied in the latest UNCTAD Handbook of International Trade and Development Statistics, the following countries and territories would be graduated:

Bahamas
Bermuda
Qatar
United Arab Emirates
Brunei
Singapore
Hong Kong
French Polynesia
New Caledonia

3. On the basis of the second criterion, the following countries and territories would be graduated:

Puerto Rico
Libyan Arab Jamahiriya
Taiwan, Province of China

Annex III

THE IMPACT OF THE GSP ON THE CENTRAL AND EASTERN EUROPEAN COUNTRIES

Data on the major DME schemes affecting the countries in transition are given in table 19. Some further details on the European Union's (EU) scheme are to be found in table 20. A number of points can be made:

1. Firstly, it is clear from the first of those tables, that these countries are major beneficiaries of the EU scheme but are very minor in the case of the United States and the Japanese schemes. The major reason is simply the much greater share of EU imports coming from the Central European countries (CEC). In the years covered by the data, the EU GSP applied to the five CEC countries. The picture will be very different from 1992 onwards, since the CEC are excluded from the EU GSP by dint of the Europe Agreements, while the FSU republics are given temporary and exceptional, i.e. limited, eligibility. Estimates of how the FSU might benefit from each scheme are given in table 19.

2. Trade between the former Socialist countries of Central and Eastern Europe and the United States is likely to grow rapidly, partly in response to inclusion in the United States GSP but also in response to the continued search for new credit-worthy and expanding markets. The same is broadly true of other non-EU Western industrialized countries. As this happens, the Central and Eastern European countries will become more significant beneficiaries of the United States and other non-EU GSP schemes.

3. A second point to note from the tables is that take up rates, measured as the ratio of the value of goods receiving GSP treatment to the value of imports covered by the scheme are significantly higher in the United States and Japanese schemes for imports from the countries in transition than for imports from the developing countries. The main explanation is probably that tariff quotas are less constraining in the case of the exports of the countries in transition simply because of their product mix.

4. Thirdly, it is apparent from table 20 that take up rates are very low for MFA products - simply because the TQs are rapidly filled - but they are not significantly different for sensitive products than for others. Sensitive products here exclude agricultural goods, textiles and iron and steel (for which separate data are available). The most important CEC exports included in the sensitive category are chemicals.

5. Bulgaria was the only one of these countries with eligibility for any EFTA GSP scheme in 1991. Rates of take up varied from 31.6 per cent in the Finnish scheme to 81 per cent in the case of the Swedish scheme. Only a total of $10.5 million worth of Bulgarian exports to the EFTA countries benefited, of which $6.4 were imports by Sweden.

6. Poland, the former Czechoslovakia and Hungary featured as leading beneficiaries of the EU GSP scheme until improved access to EU markets under the European Agreements excluded them from the EU's GSP. One of the reasons why these countries have benefited particularly from the GSP is their above average utilization for non-sensitive products. The EU Commission argues that this seems to suggest that these countries have been more successful in developing the necessary infrastructure to take advantage of the benefits granted under GSP [ECE 1993, 72]. This seems unlikely to be the case, given that these countries were admitted to the scheme only in 1990. As with these countries, exports to the EU in general rose rapidly following the breakdown of the CMEA in early 1990.

7. The Visegrad countries - the Czech Republic, Hungary, Poland and Slovakia - are no longer eligible for the EU's scheme, having signed the Europe Agreements. The CIS member States have been given GSP status on a temporary and exceptional basis. In the case of the former Soviet Union Republics, the significance of tariff-free access will be limited since:

(a) Most FSU exports are natural resource goods which in any event enter the EU market tariff-free for most non-sensitive manufactures tariffs are now relatively minor;

(b) The EU GSP does not apply to agricultural goods where there is a CAP regime, and for other agricultural goods the tariff-preferences are modest;

(c) The EU scheme as applied to the FSU exceptionally excludes textiles (except for the Baltic States who have accepted MFA-style quotas), iron and steel products and certain other goods, such as urea. Moreover, the EU and other Western countries maintain QRs on FSU exports of certain sensitive products including steel, aluminium and cement;

(d) In the case of sensitive manufactures, the preference is constrained by quotas or ceilings. The FSU republics are limited by fixed duty-free amounts for most important chemicals, wood products, ceramic articles, steel and aluminium products and motor cars.

8. Furthermore, the EU has also introduced a new rule so that GSP preferences are no longer allowable where there has been a finding of dumping, unless the anti-dumping measures explicitly take account of the preferences. The former socialist countries have been particularly subject to anti-dumping investigations in the past.

9. EFTA GSP schemes have been extended to Bulgaria while for the other Central European countries the establishment of free trade agreements makes GSP redundant. Most FSU republics benefit from the Austrian, Finnish and Swiss schemes but not from those of Norway nor Sweden.

10. The United States GSP scheme has been extended to include the Central European countries except for Romania, which was the first CEC beneficiary but whose eligibility was suspended in 1987 and the Baltic States, though recently the rest of the FSU was included. Japan has extended GSP to the Central European countries.

Table 1

Selected characteristics of the various GSP schemes (as of end October 1993)

Preference-giving countries	Principal excluded products	Beneficiaries		Safeguard clause used in past	Quantitative restrictions on country-product amounts	Graduation		Cumulation under rules of origin	Typical depth of tariff cut, % MFN rate, industrial products	Terminal date of scheme
		LDCs a/	CIT b/			by country	by country-product			
Australia	few	all	c/	yes	no	unspecified	unspecified	full and global	d/	unlimited
Austria	few	all	all	yes	no	unspecified	unspecified	e/	50 f/	g/
Bulgaria	few	h/	-	no	no	yes	unspecified	full and global	50 i/	unspecified
Canada	few	all	all	yes	no	unspecified	unspecified	full and global	35 j/	1/07/94
Ex-Czechoslovakia k/	few	l/	-	no	no	unspecified ?	unspecified	full and global	75 j/	unspecified
EU	m/	n/	p/	yes	q/	unspecified	yes	r/	100	s/
Finland	t/	all	all	yes	no	unspecified	unspecified	e/	100	30/12/2002
Hungary	v/	all	-	no	no	yes	unspecified	full and global	various j/	unspecific ?
Japan	few	w/	c/	yes	no	w/	w/	x/	100	31/03/2001
Norway	y/	all	aa/	yes	y/	unspecified	unspecified	e/	100	unspecified
New Zealand	bb/	all	c/	yes	no	yes	yes	full and global	cc/	unspecified
Poland	none	dd/	-	no	no	yes	unspecified	full and global	30 j/	unspecified
Russian Federation	none	all	-	no	no	unspecified ?	unspecified	full and global	ee/	unspecified
Sweden	ff/	all	aa/	no	no	unspecified	unspecified	e/	100	unspecified
Switzerland	few	all	aa/	yes	no	w/	w/	e/	100	1/02/1997
United States	gg/	hh/	ii/	no	kk/	yes	yes	ll/	100	30/09/1994

Explanatory Notes

a/ Group of 77 plus Kiribati and Tuvalu.

b/ Countries in transition (Poland, Hungary, Czech Rep., Slovakia, Bulgaria, Romania, Estonia, Latvia, Lithuania, the CIS States).

c/ Poland, Hungary, Czech Rep., Slovakia, Bulgaria, Romania.

d/ Preference rate of up to 5 per cent depending on MFN tariff.

e/ Cumulation for materials used in production originating in another beneficiary in same regional grouping.

f/ Deeper reductions for LDCs.

g/ Extended annually, pending a longer extension.

h/ All except Vanuatu.

i/ 100 per cent for LDCs.

k/ See note a to table 1.

l/ All except Kiribati and Tuvalu.

m/ Agricultural products subject to CAP, primary industry products, ferrous and non-ferrous metals up to ingot stage.

n/ All plus 4 Andean countries (Bolivia, Colombia, Ecuador, Peru).

p/ All except those with Europe Agreements (Poland, Czech Rep., Slovakia, Hungary, Bulgaria).

q/ Many fixed tariff-free amounts and product ceilings. MFN rates re-established on 179 products in 1991 in respect of one or more beneficiaries.

r/ Partial within regional groupings (ASEAN, Central American Common Market, the Andean Group).

s/ Textile products, certain chemicals, certain electrical equipment

t/ A range of products.

u/ All except Comoros and Djibouti.

v/ Ceilings on somewhat less than half industrial products with maximum country amounts equal to 25 per cent of ceilings. MFN rates re-established on 48 products in 1991 in respect of all beneficiaries and 20 for one or more than one beneficiary.

w/ Right to exclude reserved but rules not specified.

y/ Full within ASEAN.

z/ Textile products.

aa/ Bulgaria and Romania.

bb/ Ceramics, certain iron and steel products, certain electrical goods.

cc/ Preference rate of up to 20 per cent depending on MFN.

dd/ All except Liberia.

ee/ 100 per cent pending new tariff schedule.

ff/ Textile products, footwear.

gg/ Textile products, leather products, some chemical and many agricultural products.

hh/ All except Afghanistan, Cambodia, Ethiopia, Lao PDR, Liberia, Myanmar and Sudan.

ii/ All except Romania.

kk/ Competitive need limitations used to withdraw GSP from 111 products in 1991 in respect of one or more beneficiaries.

ll/ Full cumulation within ASEAN, CARICOM and Andean Group.

Table 2

Changes in the number of beneficiaries of the various GSP schemes since their inception

(as at end December 1993)

Preference-giving country	Original number of beneficiaries	Actual number of beneficiaries			Number of beneficiaries	
		Countries	Territories	Total	Added	Deleted
Australia	135	144	53	197	69	7
Austria	174	158	56	214	43	3
Bulgaria	67	119	26	145	78	-
Canada	140	156	58	214	78	4
ex-Czechoslovakia a/	104	119	-	119	15	-
EU	187 b/	150	52	202	21	6
Finland	99	138	7	145	46	-
Hungary	69	109	-	109	43	3
Japan	131	140	47	187	59	3
Norway	101	136	56	192	95	4
New Zealand	153	135	32	167	18	4
Poland	144	95	-	95	7	56
Russian Federation c/	..	133	14	147	..	..
Sweden	166	135	49	184	20	2
Switzerland	191	135	71	206	16	1
United States	138	116	35	151	40	27

Source: Notifications to the UNCTAD secretariat by preference-giving countries.

a/ At the twentieth session of the Special Committee on Preferences (Geneva, 10-14 May 1993), the representatives of the Czech and Slovak Republics announced that until further notice their schemes would be the same as that of the former Czechoslovakia.

b/ The number of beneficiaries in respect of textiles is considerably smaller.

c/ The GSP scheme of the Russian Federation superceded that of the ex-USSR which used to grant beneficiary status to all developing countries with which it had trade relations.

Table 3

Imports from GSP beneficiaries excluded from the United States GSP, $ million and as percentage of dutiable imports, selected years

Sector (i)	Total imports (ii)	MFN dutiable (iii)	GSP excluded (iv)	(iv) as percent of (iii)
1977 all products[a]	34,598	26,654	17,977	67.4
1986 agricultural	14,294	5,123	2,895	56.5
industrial	97,981	89,043	55,696	62.5
total	112,275	94,166	58,591	62.2
1989 agricultural	12,184	5,452	3,417	62.7
industrial	75,153	60,475	40,171	66.4
total	87,337	65,927	43,588	66.1
1991 agricultural	13,727	6,541	4,027	61.6
industrial	82,242	67,497	43,105	63.9
total	95,970	74,039	47,132	63.7

a: breakdown by sector not available.

Table 4

Imports from GSP beneficiaries excluded from the EU GSP,
$ million and as percentage of dutiable imports, 1991 (a)

Sector	Total imports from beneficiaries	MFN dutiable	GSP excluded	(iv) as percent of (iii)
(i)	(ii)	(iii)	(iv)	(v)
Agricultural	22,034	15,839	9,480	59.9
Industrial	112,586	70454	24,456	34.7
Total	134,620	86,293	33,936	39.3

a: small discrepancies between this and certain subsequent tables arise since this table is based on earlier data supplied by the EU Commission to UNCTAD

Table 5

United States GSP: industrial products with coverage rate less than 30 per cent and MFN tariff, 1991

HS		Imports				tariff (a)	cov./dut. %
		total	dutiable	covered	receiving		
54	Syn. thread	90	90	0	0	12.3	0.0
27	Mineral fuel	18,865	18,477	4	1	0.5	0.0
61	Knit'd clothes	3,073	3,073	2	1	20.5	0.1
58	Spec. fabrics	28	28	0	0	9.9	0.3
57	Carpets	255	253	2	1	5.5	0.9
88	Aircraft	458	342	6	6	3.2	1.7
52	Cotton	556	554	10	7	8.0	1.9
62	Other clothes	6,273	6,273	151	18	18.5	2.4
51	Wool	50	49	3	2	0.9	5.2
64	Footwear	2,373	2,366	168	113	9.8	7.1
59	Impreg. mats.	18	18	2	1	7.0	10.1
72	Ferrous metals	1,222	983	107	54	4.5	10.9
65	Hats etc.	122	122	20	12	8.3	16.7
56	Cotton mats.	105	46	11	11	10.7	24.4
53	Other fibres	88	25	6	6	3.3	25.5
91	Watches	148	148	40	28	5.8	27.2
93	Firearms	76	76	21	19	5.1	27.4
42	Leather pdts.	707	644	177	168	10.0	27.5
63	Other textiles	550	535	154	46	7.6	28.7
total above		35,057	34,103	886	495	7.0	2.6
25-97	All ind. goods	82,242	67,498	24,393	12,168	5.9	36.1

Table 6

EU GSP scheme: frequency of reimposition of MFN tariffs by country, 1988, 1992

Reimposition of MFN tariffs			Number of cases where cealings reached a/
Product and countries/territories	1988	1992	1992
Agricultural products			
Colombia		1	
All beneficiaries		3	
Industrial products			
Algeria			1
Argentina			3
Brazil	5	14	7
Bulgaria		3	1
Chile			1
China	14	45	5
former Czechoslovakia		12	1
Hong Kong	3	7	2
Hungary		6	1
India	6	4	7
Indonesia	3	7	1
Korea Rep.	2	25	4
Libyan Arab Jam.		1	2
Lithuania			1
Malaysia	2	5	3
Mexico	1	1	5
Pakistan	1		4
Paraguay			1
Philippines	1	2	2
Poland		8	6
Romania	2	14	1
Saudi Arabia		1	1
Singapore	1	4	5

Reimposition of MFN tariffs			Number of cases where cealings reached a/
Product and countries/territories	1988	1992	1992
Industrial products (cont'd)			
Sri Lanka			1
Thailand	4	9	3
Venezuela		1	
Uruguay			2
Textiles (MFA and non MFA)			
Argentina		1	2
Brazil	5	12	19
Bulgaria		16	21
China	8	59	23
former Czechoslovakia		32	8
Hong Kong		7	7
Hungary		18	4
India	10	31	48
Indonesia	2	25	35
Iran, Islamic Rep.			4
Korea Rep.	11	30	15
Macao		1	
Malaysia		10	20
Mexico	1	3	9
Pakistan	12	30	31
Philippines	4	8	15
Poland		20	7
Romania		8	6
Singapore		1	1

a/ In these cases no imformation is available as to whether the MFN tariff has been reimposed

Reimposition of MFN tariffs			Number of cases where cealings reached a/
Product and countries/territories	1988	1992	1992
Textile (MFA and non MFA) (cont'd)			
Sri Lanka	1	1	6
Thailand	13	39	23
Uruguay			1
Venezuela			1
Totals	112	525	377

a/ In these cases no imformation is available as to whether the MFN tariff has been reimposed

Table 7

EU GSP scheme: reduced fixed duty-amounts and products graduations, industrial goods, excl. MFA goods, 1989, 1993

Country or territory	1989		1993	
	Reduced quotas	Graduation	Reduced quotas	Graduation
Brazil	1		2	
Hong Kong	5	2	5	2
Korea, Rep. of	8	4	10	6
Libya, Arab Jam.	1	1	1	1
Saudi Arabia	1	6	1	6
Singapore	2		2	
Totals	18	13	21	15

Table 8

United States GSP scheme: imports denied GSP treatment owing to competitive need criteria, 1989, 1991, $ mill. and percent

Country	1989			1991		
	no. of products	$ mill.	percent covered imports	no. of products	$ mill.	percent covered imports
Chile	not covered			3	178.8	52.1
Mexico	238	6797.6	59.4	56	5780.8	43.8
Indonesia	2	4.6	2.7	2	250.3	37.3
Colombia	1	97.5	30.1	1	96.4	33.1
Brazil	100	1070.6	44.8	11	546.8	27.9
Thailand	17	267.5	17.2	5	636.7	27.4
ex-Yugoslavia	2	79.5	19.4	1	58.2	17.0
Argentina	17	151.4	29.3	1	65.9	14.8
Turkey	2	11.0	8.5	1	17.7	14.0
Philippines	-	-	-	1	97.5	9.6
Dominican Rep.	1	0.8	0.3	3	22.2	9.3
Malaysia	-	-	-	2	206.2	7.6
India	10	23.6	5.2	1	12.4	2.1
Venezuela	1	3.0	1.3	1	2.9	1.1
Israel	2	0.1	0.0	3	3.0	0.6
Guatemala	-	-	-	1	0.2	0.3
Bahamas	1	13.1	48.9	-	-	-
Peru	4	34.6	14.2	-	-	-
Totals	398	8554.9		93	7994.0	

Table 9

Imports of preference-giving countries from beneficiaries of their schemes
1976-1992
(millions of US dollars)

Preference-giving country and year	Total imports	MFN dutiable imports	GSP imports		Percentage share		
			Covered	Preferential	(4)/(3)	(5)/(4)	(5)/(3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
AUSTRALIA							
FY 1976	2,249.9	885.4	412.8	412.8	46.6	100.0	46.6
FY 1981	6,211.1	2,929.9	1,979.8	1,979.8	67.6	100.0	67.6
FY 1990	9,453.5	4,488.1	4,271.4	4,271.4	95.2	100.0	95.2
FY 1991	10,597.0	5,102.6	4,944.5	4,944.5	96.9	100.0	96.9
AUSTRIA							
1976	1,327.5	1,123.1	998.3	126.1	88.9	12.6	11.2
1981	2,745.0	2,371.1	2,025.6	251.0	85.4	12.4	10.6
1991	6,063.0	4,797.0	4,378.0	1,633.0	91.3	37.3	34.0
1992	6,419.8	4,990.4	4,605.3	1,796.1	92.3	39.0	36.0
CANADA							
1976	4,256.8	1,058.1	561.3	411.4	53.0	73.0	38.9
1981	6,877.9	2,163.3	1,176.0	857.9	54.4	73.0	39.7
1991	12,443.3	6,585.2	4,001.8	2,675.5	60.8	66.9	40.6
1992	12,898.1	6,746.9	3,945.2	2,680.9	58.5	68.0	39.7
EEC							
1976	79,939.7	17,950.0	10,903.0	3,915.9	60.7	35.9	21.8
1981	111,282.3	30,786.8	23,971.1	9,002.0	77.9	37.6	29.2
1991	156,895.0	104,850.0	64,204.0*	30,208.0*	61.2	47.1	28.8
1991 •	140,986.0	90,142.4	55,038.5*	26,063.2*	61.1	47.4	28.9
1992 ••	149,164.4	108,631.4	74,453.9	35,727.0	68.5	48.0	32.9

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FINLAND							
1976	749.7	145.9	29.4	20.9	20.2	71.1	14.3
1982	983.3	325.0	132.5	108.4	40.8	81.8	33.4
1991	1,804.6	1,502.1	472.5	276.6	31.5	58.5	18.4
1992	1,817.0	1,555.0	514.0	256.0	33.0	49.9	16.5
JAPAN							
FY 1976	13,457.9	6,369.3	3,369.3	1,789.5	52.9	53.1	28.1
FY 1982	27,528.2	13,331.2	8,575.3	5,263.3	64.3	61.4	39.5
FY 1991	110,970.0	71,735.0	25,415.0	12,078.0	35.4	47.5	16.8
FY 1992	115,667.0	76,780.0	26,674.0	12,305.0	34.7	46.1	16.0
NEW ZEALAND							
FY 1976	571.8	150.0	140.0	140.0	93.3	100.0	93.3
FY 1981	1,264.3	275.0	246.9	246.9	89.9	100.0	89.8
FY 1990	1,124.4	459.0	453.3	406.2	98.8	89.6	88.5
FY 1991	1,098.1	452.1	451.1	389.6	99.8	86.4	86.2
NORWAY							
1976	1,171.8	95.0	44.3	22.4	46.6	50.5	23.6
1981	1,185.9	296.2	128.3	66.9	43.3	52.1	22.6
1991	3,103.0	1,181.0	723.0	463.0	61.2	64.0	39.2
1992	2,068.0	1,117.0	692.0	477.0	61.9	69.0	42.7
SWEDEN							
1976	2,732.8	941.5	189.1	144.8	20.1	76.6	15.4
1981	3,881.3	821.5	395.5	272.5	48.1	68.9	33.2
1991	4,776.0	2,715.0	1,532.0	1,017.0	56.4	66.4	37.5
1992	3,648.0	2,122.0	1,172.0	739.0	55.2	63.1	34.8
SWITZERLAND							
1976	1,541.0	1,418.6	635.2	257.1	44.8	40.5	18.1
1982	2,851.6	2,751.6	1,180.4	449.5	42.9	38.1	16.3
1991	5,541.5	5,338.5	3,799.8	1,524.1	71.2	40.1	28.5
1992	4,710.8	4,515.2	3,204.3	1,380.2	71.0	43.1	30.6

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
UNITED STATES OF AMERICA							
1976	28,497.6	21,879.8	6,530.0	3,160.3	29.8	48.4	14.4
1981	60,751.5	53,823.3 [c]	16,870.4	8,395.5	31.3	49.8	15.6
1991	95,969.8	74,039.4	26,907.1	13,675.0	36.3	50.8	18.5
1992	149,423.0 [c]	115,205.0 [c]	35,723.0	16,746.0	31.0	46.9	14.5
OECD TOTALS							
1976	136,496.5	520,161.7	23,812.7	10,401.2	45.8	43.7	20.0
1981 [c]	225,562.4	109,874.9	56,681.8	26,893.7	51.6	47.4	24.5
1991 [f]	392,235.1	262,982.8	126,992.4	64,083.0	48.3	50.5	24.4
1992 [g]	457,511.2	327,217.6	156,379.3	77,441.3	47.8	49.5	23.7
HUNGARY							
1976	379.2	209.6	196.9	196.9	93.9	100.0	93.9
1981	735.1	735.1	726.7	726.7	98.9	100.0	98.9
1991	636.1	636.1	613.6	613.6	96.4	100.0	96.4
1992	333.5	333.5	311.9	311.9	93.5	100.0	93.5

Source: Notifications and UNCTAD calculations.

[a] Excluding the Republic of Korea.

[b] Excluding Czech and Slovak Republics, Hungary and Poland.

[c] Provisional figures.

[d] Estimates.

[e] UN sources.

[f] 1982 for Finland, Japan and Switzerland.

[g] Excluding Czech and Slovak Republics, Hungary and Poland under EEC scheme.

[h] FY 1991 for Austalia and New Zealand.

Table 10

Preferential imports into selected preference-giving countries from their beneficiaries

Annual average increase for the period 1976-1992 and 1991-1992
(percentage)

Preference-giving countries	World		All beneficiaries			
			Total		Preferential	
	1976/1992	1991/1992	1976/1992	1991/1992	1976/1992	1991/1992
Australia	8.4	7.0	10.9 [a]	12.1 [b]	16.8 [a]	15.8 [b]
Austria	10.4	6.7	9.1	5.9	18.1	10.0
Canada	7.6	4.7	7.2	3.7	12.5	0.2
EEC	9.2	5.0	4.0	5.8	14.8	37.1
Finland	6.7	-2.2	3.9	0.7	17.0	-14.7
Japan	8.3	-1.3	14.4	4.2	12.8	1.9
New Zealand	6.8	8.1	4.5 [a]	-2.3 [b]	7.1 [a]	-3.9 [b]
Norway	5.4	-4.6	3.6	-33.4	21.2	3.0
Sweden	6.1	-0.1	1.8	-23.6	10.7	-27.3
Switzerland	9.8	-0.9	7.2	-15.0	11.1	-9.4
United States	9.3	9.1	10.9	55.7	11.0	22.5
Total OECD	8.9	4.8	7.9	16.6	13.4	20.8
Hungary	4.7	3.7	-1.0	-47.6	2.9	-49.2

[a] 1976-1991.

[b] 1990-1991.

Table 11

Preferential imports into selected preference-giving countries from all and LDC beneficiaries, adjusted for inflation, annual av. increase 1976-1992

	average annual growth in nominal terms		average annual growth in real terms (c)	
	all benef.	LDCs	all benef.	LDCs
Australia (a)	16.8	4.5	11.6	-0.2
Austria	18.1	12.9	12.9	7.9
Canada	12.5	24.1	7.5	18.6
EU (b)	14.8	17.3	9.8	12.2
Finland	17.0	2.2	11.8	-2.3
Japan	12.8	30.3	7.8	24.5
New Zealand (a)	7.1	26.0	2.3	20.3
Norway	21.2	33.5	15.8	27.6
Sweden	10.7	27.9	5.8	22.2
Switzerland	11.1	12.9	6.2	7.9
United States	11.0	-4.7	6.1	-8.9
Total OECD	13.4	13.0	8.4	8.0
Hungary	2.9	7.0	-1.7	2.3

a: 1976-1991
b: 1978-1992
c: deflated by the index of unit values of manufactures exported by the developed market economies (UN Monthly Bulletin of Statistics, various issues).

Table 12

Imports of major preference-giving countries from their major beneficiaries in 1992 (million US dollars)

Preference-giving country	Major supplier	Total imports	MFN dutiable imports	GSP imports		Percentage share		
				covered	Preferential	(5)/(4)	(6)/(5)	(6)/(4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
OECD GSP schemes		457,511	327,218	156,379	79,441	47.8	49.5	23.7
Three major GSP schemes: EEC, USA and JAPAN		414,254	300,616	136,851	64,778	45.5	47.3	21.5
	% Share Three major schemes/ OECD Total	90.5	91.9	87.5	83.6	—	—	—
EEC*	China	21,574	20,032	17,363	8,562	86.7	49.3	42.7
	Rep. of Korea	9,483	9,291	8,022	2,028	86.3	25.3	21.8
	Singapore	7,214	6,881	6,342	2,210	92.2	34.8	32.1
	Malaysia	6,276	5,024	4,758	2,087	94.7	43.9	41.5
	Thailand	7,226	6,790	4,738	2,569	69.8	54.2	37.8
	India	6,224	4,925	4,660	2,916	94.6	62.6	59.2
	Indonesia	5,601	5,080	4,377	2,478	86.2	56.6	48.8
	Brazil	11,647	6,654	3,964	2,514	59.6	63.4	37.8
	Hong Kong	7,493	6,976	3,021	711	43.3	23.5	10.2
	Pakistan	2,034	1,899	1,774	1,047	93.4	59.0	55.1
	Philippines	2,033	1,800	1,622	773	90.1	47.7	42.9
	Mexico	3,685	1,822	1,586	832	87.0	52.5	45.7
	Sub-total	90,490	77,174	62,227	28,727	80.6	46.2	37.2
	Total	149,164	108,631	74,454	35,727	68.5	48.0	32.9
	% Sub-total/ total	60.7	71.0	83.6	80.4	—	—	—

* Provisional figures.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Japan	China	17,414	13,794	8,737	1,820	63.3	20.8	13.2
	Rep. of Korea	11,249	7,925	5,529	2,787	69.8	50.4	35.2
	Taiwan (Province of China)	9,150	5,519	3,162	2,128	57.3	67.3	38.5
	Thailand	5,829	3,025	1,303	586	43.1	44.9	19.4
	Indonesia	12,429	6,577	999	498	15.2	49.8	7.6
	Brazil	2,852	1,200	876	797	72.9	91.1	66.4
	Malaysia	6,465	1,760	777	621	44.2	80.0	35.3
	Sub-total	65,388	39,800	21,388	9,237	53.7	43.2	25.2
	Total	115,667	76,789	26,674	12,305	34.7	46.1	16.0
	% Sub-total/ total	56.5	51.8	80.2	75.1	—	—	—
USA (1991)	Mexico	30,443	26,521	13,182	3,838	49.7	29.1	14.5
	Malaysia	6,073	3,791	2,702	1,933	71.3	71.5	51.0
	Thailand	6,069	4,298	2,327	1,471	54.1	63.2	34.2
	Brazil	6,733	4,835	2,026	1,303	41.9	64.3	26.9
	Philippines	3,430	2,410	1,019	822	42.3	80.8	34.1
	Indonesia	3,465	2,602	671	351	25.8	52.3	13.5
	Sub-total	56,214	44,458	21,927	9,718	49.3	44.3	21.9
	Total	95,970	74,039	26,907	13,675	36.3	50.8	18.5
	% Sub-total/ total	58.6	60.0	81.5	71.1	—	—	—

Sources: Notification and UNCTAD calculation.

Table 13

Imports under the EU GSP by broad grouping and beneficiary, potential and actual tariff savings, 1991, $ mill. and % (c)

Exporter	Imports				Aver. MFN tariff (a)	Duty saved thru. GSP (b)
	total	dutiable	covered	preferential		
all pdts.	134,621	86,293	53,000	25,276		
agric.	25,178	15,839	6,896	5,087		
indust.	112,586	70,454	46,104	20,189	9.0	6,306
Industrial imports						
China	16,965	16,112	12,195	5,457	9.3	1,502
Hong Kong	7,703	7,242	2,914	547	10.0	723
Singapore	6,276	5,992	5,166	1,331	7.8	464
Thailand	4,263	3,818	3,190	1,467	9.6	368
Malaysia	4,677	3,559	3,122	944	10.3	365
India	5,008	3,990	3,452	2,098	9.0	358
Indonesia	3,299	2,990	2,606	1,297	11.2	335
Brazil	6,908	4,220	3,158	1,780	7.5	317
Pakistan	1,788	1,692	1,627	861	10.2	172
Saudi A.	13,637	2,402	1,543	917	6.2	150
Philippines	1,343	1,280	1,128	367	10.6	135
Mexico	3,434	1,492	1,351	726	6.8	102
Libyan A.J.	9,991	1,645	1,026	596	5.3	87
Sri Lanka	557	429	401	91	11.9	51
Argentina	1,031	615	481	329	7.1	43
Venezuela	1,936	684	439	307	5.2	36
sub-total	88,816	58,162	43,799	19,115	9.0	5,208

a: weighted average MFN tariff rate based on dutiable imports by 8-digit classification
b: hypothetical value of tariffs "saved" if all dutiable imports were admitted duty-free
c: see note to table 3

Table 14

Imports under the United States GSP by broad grouping and beneficiary, potential and actual tariff savings, 1991, $ mill. and %

	Imports				Av. MFN tariff (a)	MFN tariff 'savings'	
	total	dutiable	cov'd	prefer-ential		max. (b)	act. (c)
total	95,970	74,039	26,907	13,675	6.1	4,516	683
agric.	13,727	6,541	2,514	1,507	7.6	497	67
indust.	82,242	67,498	24,393	12,168	5.9	3,982	616
Industrial imports							
Mexico	27,549	24,444	12,196	3,521	4.2	1,027	164
Thailand	4,799	3,629	2,208	1,370	8.4	305	76
Malaysia	5,856	3,762	2,683	1,919	7.0	263	102
Brazil	5,379	4,299	1,883	1,226	5.9	254	55
Philippines	2,908	2,152	898	714	11.4	245	41
Indonesia	3,014	2,491	646	328	9.0	224	18
India	2,854	1,818	534	477	9.6	175	25
Israel	3,417	1,733	494	465	6.4	111	25
Costa Rica	635	618	75	62	15.0	93	3
Macao	570	566	171	159	16.0	91	12
Banglad'h	475	455	9	8	17.8	81	0
Guatemala	408	397	10	9	17.4	69	0
Pakistan	605	582	90	86	11.5	67	5
Colombia	1,849	1,626	101	98	3.6	59	5
Venezuela	7,641	7,163	228	215	0.8	57	9
Turkey	583	531	87	81	9.9	53	4
sub-total	67,970	56,266	22,313	10,738	5.6	3,172	544

a: weighted average MFN tariff rate based on dutiable imports by 8-digit classification
b: hypothetical value of tariffs "saved" if all dutiable imports were admitted duty-free
c: actual value of tariffs "saved" estimated by applying MFN tariffs to preferential imports

Table 15

Principal preferential imports under the United States GSP by product group, 1991, $ mill. and %

HS	product	tariff	imports				duty saved thru. GSP		
		(a)	total	dutiable	covered	receiving	dut. (b)	cov. (c)	act. (d)
85	Elec. mach.	4.8	14,587	11,459	8,425	2,821	561	401	15
84	Power mach.	3.5	5,040	3,384	3,077	1,397	120	107	52
95	Toys etc.	6.6	978	953	863	676	64	58	47
71	Precious stones	6.6	4,602	1,163	999	692	77	66	45
94	Furniture	4.4	1,466	1,466	1,426	884	65	63	39
29	Organic chems.	8.3	1,142	1,087	502	430	91	44	39
39	Plastics	4.9	680	671	580	479	33	29	24
44	Wood and pdts	6.1	1,021	755	743	395	46	46	22
90	Scientif. eqpt.	5.3	1,448	1,415	1,161	366	76	59	21
87	Other trspt.	3.5	5,270	5,206	1,592	569	184	48	17
73	Ferrous pdts.	4.0	815	753	422	361	31	19	16
69	Ceramic pdts.	10.6	361	356	231	166	38	19	13
22	Alcoh'c bevs.	6.6	347	347	248	87	23	18	13
16	Meat pdts.	6.7	992	842	269	211	57	15	12
40	Rubber & pdts.	4.0	1,239	550	508	291	22	20	11
42	Leather pdts.	10.0	707	644	177	168	65	12	11
70	Glass & pdts.	8.7	374	278	213	184	24	13	11
64	Footwear	9.8	2,373	2,366	168	113	234	12	10
96	Other gds.	7.5	220	218	198	119	17	15	9
82	Instruments, cutlery	7.1	177	173	145	126	12	9	8
	Total of above	5.3	43,836	34,088	21,947	10,536	1,839	1,072	568
Total industrial		5.9	82,242	67,498	24,393	12,168	3,982	1,149	616
Total above as % total industrial			53.3	50.5	90.0	86.6	46.2	93.3	92.2

a: weighted average MFN tariff rate based on dutiable imports by 8-digit classification
b: hypothetical value of tariffs "saved" if all dutiable imports were admitted duty-free
c: hypothetical value of tariffs "saved" if all covered imports were admitted duty-free
d: actual value of tariffs "saved" estimated by applying MFN tariffs to preferential imports

Table 16

Imports of preference-giving countries from least developed countries beneficiaries of their schemes, 1976-1992 [a]
(million of US dollars)

Preference-giving country and year	Total imports	MFN dutiable imports	GSP imports		Percentage share		
			covered	preferential	(4)/(3)	(5)/(4)	(5)/(3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
AUSTRALIA							
FY 1976	42.9	5.6	5.1	5.1	91.0	100.0	91.0
FY 1981	36.8	18.2	17.9	17.7	98.4	98.9	97.3
FY 1990	79.0	8.5	8.5	8.5	100.0	100.0	100.0
FY 1991	75.3	10.5	10.3	10.3	98.0	100.0	98.0
AUSTRIA							
FY 1976	15.0	7.0	6.7	0.8	95.7	11.9	11.4
FY 1981	15.2	5.6	5.1	0.9	91.1	17.6	16.1
FY 1991	130.0	121.0	120.0	4.7	99.2	3.9	3.9
FY 1992	124.6	115.2	110.7	5.6	96.1	5.1	4.9
CANADA							
FY 1976	32.0	1.5	1.0	0.2	66.7	20.0	13.3
FY 1981	37.3	2.6	2.3	0.8	88.5	34.8	30.8
FY 1991	216.7[b]	50.1[c]	11.4[c]	7.9[c]	22.8	69.3	15.8
FY 1992	176.2[b]	40.7[c]	9.3[c]	6.4[c]	22.9	68.8	15.7
EEC [d]							
FY 1978	322.1	231.8[c]	98.3	47.1	42.4	47.9	20.3
FY 1981	395.1	266.3	239.4	150.6	89.7	62.9	56.4
FY 1991	1146.0	1069.0	1014.0	539.0	94.9	53.2	50.4
FY 1992[e]	1848.7	1188.3	1166.5	603.2	98.2	51.7	50.8

[a] As the list of LDCs beneficiaries under each GSP scheme was subject to changes from time to time, figures as shown in this table for corresponding years, are not, in absolute terms comparative. However, this table gives an order of magnitude, of the preferential imports from the LDCs beneficiaries into the OECD preference-giving countries.

[b] UN sources.

[c] Estimates.

[d] Effective LDCs beneficiaries only are taken into account.

[e] Provisional figures.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FINLAND							
FY 1976	11.5	1.3	1.1	0.7	84.6	63.6	53.8
FY 1981	16.7	11.3[e]	11.3	1.0	100.0	88.5	8.9
FY 1991	17.8	17.8	10.8	9.6	60.7	88.9	53.9
FY 1992	21.0	21.0	11.0	1.0	52.4	9.1	0.5
JAPAN							
FY 1976	212.0	31.6	7.2	3.3	22.8	45.8	10.4
FY 1982	222.2	47.2	8.6	4.9	18.2	57.0	10.4
FY 1991	1124.0	726.0	459.0	239.0	63.2	32.9	52.1
FY 1992	972.0	502.0	369.0	229.0	73.5	62.1	45.6
NEW ZEALAND							
FY 1976	12.5	2.2	1.9	1.9	86.4	100.0	86.4
FY 1981	11.4	5.4	5.3	5.3	98.4	100.0	98.4
FY 1990	104.2	43.2	43.1	42.8	99.8	99.3	99.1
FY 1991	67.1	39.5	39.5	38.9	100.0	98.5	98.5
NORWAY							
FY 1976	7.4	0.5	0.5	0.1	100.0	20.0	20.0
FY 1981	4.9	0.8	0.8	0.3	100.0	37.5	37.5
FY 1991	566.0	91.0	91.0	11.0	100.0	12.1	12.1
FY 1992	204.0	16.0	16.0	10.0	100.0	60.5	60.5
SWEDEN							
FY 1976	29.1	23.4	0.3	0.1	1.3	33.3	0.4
FY 1981	13.2	2.7	0.5	0.3	18.5	60.0	11.1
FY 1991	38.0	19.0	19.0	5.0	100.0	26.3	26.3
FY 1992	36.0	19.0	19.0	5.0	100.0	26.3	26.3

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
SWITZERLAND							
FY 1976	44.2	40.5	16.7	4.9	41.2	29.3	12.1
FY 1982	51.8	47.9	23.8	10.0	49.7	42.0	20.9
FY 1991	66.7	51.4	46.3	28.5	90.1	61.6	55.4
FY 1992	75.3	60.4	57.9	34.1	96.0	58.8	56.5
UNITED STATES OF AMERICA							
FY 1976	557.3	176.8	116.8	75.9	66.1	65.0	42.9
FY 1982	844.4	287.7	153.5	47.9	53.4	31.2	16.6
FY 1991	1389.0	1035.8	82.9	49.3	8.0	59.5	4.8
FY 1992	1565.4[d]	1030.0[e]	66.6	35.5	6.5	53.3	3.4
OECD Totals							
FY 1976[f]	1286.0	522.2	255.6	140.1	48.9	54.8	26.8
FY 1981[g]	1649.0	695.7	468.5	239.7	67.3	51.2	34.5
FY 1991[h]	4877.4	3232.8	1906.0	945.3	59.0	49.6	29.2
FY 1992[i]	5165.6	3042.6	1875.8	979.0	61.7	52.2	32.2
HUNGARY							
FY 1976	12.4	4.2	4.1	4.1	97.6	100.0	97.6
FY 1981	7.6	7.6	7.6	7.6	100.0	100.0	100.0
FY 1991	6.0	6.0	6.0	6.0	100.0	100.0	100.0
FY 1992	12.2	12.2	12.2	12.2	100.0	100.0	100.0

f 1978 for EEC and New Zealand.

g 1982 for Japan, Switzerland and USA.

h 1990 for Australia and New Zealand.

i 1991 for Australia and New Zealand.

Table 17

Preferential imports into selected preference-giving countries from their least developed country beneficiaries

Annual average increase for the periods 1976-1992 and 1991-1992
(percentage)

Preference-giving countries	World		All least developed beneficiaries			
			Total		Preferential	
	1976/1992	1991/1992	1976/1992	1991/1992	1976/1992	1991/1992
Australia	8.4	7.0	3.6 [a]	-4.7 [b]	4.5 [a]	21.2 [b]
Austria	10.4	6.7	14.2	-4.2	12.9	19.1
Canada [c]	7.6	4.7	11.3	-18.7	24.1	-19.0
EEC	9.2	5.0	11.5 [d]	61.3	17.3 [d]	11.9
Finland	6.7	-2.2	3.8	18.0	2.2	-89.6
Japan	8.3	-1.3	10.0	-13.5	30.3	-4.2
New Zealand	6.8	8.1	13.8 [a]	-35.6 [b]	26.0 [a]	-9.1 [b]
Norway	5.4	-4.6	23.1	-64.0	33.5	-9.1
Sweden	6.1	-0.1	1.3	-5.3	27.9	-
Switzerland	9.8	-0.9	3.4	12.9	12.9	19.6
United States	9.3	9.1	6.6	12.7	-4.7	-28.0
Total OECD	8.9	4.8	9.2	8.5	13.0	4.3
Hungary	4.7	3.7	-0.1	103.3	7.0	103.3

[a] 1976-1991.

[b] 1990-1991.

[c] Figures for 1991 and 1992 estimated.

[d] 1978-1992.

Table 18

Industrial imports from least developed country beneficiaries under the EU and United States GSP schemes, 1991, $ mill. and % (e)

donor/ beneficiary countries	tariff (a)	imports				duty saved thru. GSP		
		total	dutiable	covered	receiving	dut. (b)	cov. (c)	act. (d)
USA								
LDCs	12.3	1,550	1,146	68	33	141	3	2
total: all beneficiaries	6.0	82,242	67,498	24,393	12,168	4,017	1,158	620
LDCs as % total		1.9	1.7	0.3	0.3	3.5	0.3	0.3
EU								
LDCs	10.9	1,000	940	872	436	102	n.a.	n.a.
total: all beneficiaries	9.0	112,586	70,454	46,104	20,189	6,306	n.a.	n.a.
LDCs as % total		0.9	1.3	1.9	2.2	1.6	n.a.	n.a.

a: weighted average MFN tariff rate based on dutiable imports by 8-digit classification
b: hypothetical value of tariffs "saved" if all dutiable imports were admitted duty-free
c: hypothetical value of tariffs "saved" if all covered imports were admitted duty-free
d: actual value of tariffs "saved" estimated by applying MFN tariffs to preferential imports
e: discrepancies between this and earlier tables are due to the fact that the calculations were based on unrevised data submitted to UNCTAD bu the US and the EU

Table 19

Summary: Utilization of EC, Japanese and United States GSP schemes by Central and Eastern European countries in (CET), 1991, $US million (b)

	Total	Dutiable	Covered	Receiving	Rec/Cov%
EC scheme					
Bulgaria	915	760	385	102	26.5
ex-Czechoslovakia	4927	4913	2944	1195	40.6
Hungary	4421	3984	2532	1157	45.7
Poland	7449	6311	3699	1793	48.5
ex-USSR a/	21633	14451	8848	4175	47.2
sub-total	39345	30419	18408	8422	45.8
all beneficiaries	156895	104850	64204	30208	47.1
CEECT as % all	25.1	29.0	28.7	27.9	
USA scheme					
Bulgaria a/	61	47	17	7	41.2
ex-Czechoslovakia	144	126	60	36	60.0
Hungary	367	307	184	154	83.7
Poland	351	289	163	138	84.7
ex-USSR a/	900	694	252	128	50.8
sub-total	1823	1463	676	463	68.5
all beneficiaries	95970	74039	26907	13675	50.8
CEECT as % all	1.9	2.0	2.5	3.4	
Japanese scheme					
Bulgaria	50	42	19	15	78.9
ex-Czechoslovakia	126	81	29	14	48.3
Hungary	141	118	102	74	72.5
Poland	183	144	81	58	71.6
ex-USSR a/	3317	2143	760	362	47.6
sub-total	3817	2528	991	523	52.8
all beneficiaries	110970	71735	24415	12078	49.5
CEECT as % all	3.4	3.5	4.1	4.3	
Total, three schemes					
Bulgaria a/	1026	849	421	124	29.5
ex-Czechoslovakia	5197	5120	3033	1245	41.0
Hungary	4929	4409	2818	1385	49.1
Poland	7983	6744	3943	1989	50.4
ex-USSR a/	25850	17288	9860	4665	47.3
sub-total	44985	34410	20075	9408	46.9
all beneficiaries	363835	250624	115526	55961	48.4
CEECT as % all	12.4	13.7	17.4	16.8	

a: estimated on basis of shares of dutiable, covered and GSP receiving imports in total imports from all beneficiaries

b: see note (e) in Table 18

Sources: replies from preference-giving countries exce

Table 20

EU GSP, coverage and benefiting ratios, 1990 and 1991
($000 and percent) (a)

Category	1990					1991				
	Total	Dutiable	Covered	Receiving	Rec/Cov	Total	Dutiable	Covered	Receiving	Rec/Cov
Bulgaria										
Sensitive						86625		86604	27367	31.6
MFA textiles						135827		133810	23425	17.5
Agricultural pdts.	193401	175657	No GSP	No GSP		237603	206983	17592	2752	15.6
Industrial pdts.	520940	415187	No GSP	No GSP		677174	553374	367803	99713	27.1
All products	714340	590844	No GSP	No GSP		914777	760358	385395	102465	26.6
fm. CSFR										
Sensitive						892621		892511	357707	40.1
MFA textiles						567399		557594	75475	13.5
Agricultural pdts.	265103	241529	No GSP	No GSP		306488	264561	71082	44179	62.2
Industrial pdts.	3074543	2589784	No GSP	No GSP		4620060	4148361	2872528	1150975	40.1
All products	3339645	2831613	No GSP	No GSP		4926548	4412922	2943610	1195154	40.6
Hungary										
Sensitive	527045		527017	249962	47.4	613387		613861	291719	47.5
MFA textiles	552984		548754	55240	10.1	643073		633352	71233	11.2
Agricultural pdts.	908866	775305	93940	37831	40.3	1139530	962547	103112	62785	60.9
Industrial pdts.	2761858	2463647	2013792	797035	39.6	3281702	3021294	2429159	1094199	45.0
All products	3670724	3238952	2107732	834886	39.6	4421232	3983841	2532271	1156984	45.7
Poland										
Sensitive	702732		702297	290418	41.4	1028478		1027893	658032	64.0
MFA textiles	710561		708680	68149	9.6	1024822		1015204	100240	9.9
Agricultural pdts.	1408180	1240022	228786	119187	52.1	1338544	1203365	254361	154392	60.7
Industrial pdts.	4992060	4052675	2704474	1040357	38.5	6110175	5107417	3444287	1638241	47.6
All products	6400160	5292697	2933240	1159544	39.5	7448719	6310782	3698648	1792633	48.5
Romania										
Sensitive	471960		471953	385172	81.6	505744		505752	320475	63.4
MFA textiles	355853		354196	7676	2.2	344289		341772	18270	5.3
Agricultural pdts.	51908	43010	9948	4290	45.9	94500	81413	13057	6570	50.3
Industrial pdts.	1976861	1941845	988197	492287	49.8	1700465	1665208	1057632	464999	44.0
All products	2028769	1984855	997545	496577	49.8	1794965	1746623	1070689	471569	44.0
CEECT Beneficiaries										
Sensitive	1701737	0	1701269	925552	54.4	4019476		4019132	2013007	50.1
MFA textiles	1619398	0	1611630	131065	8.1	3282809		3239326	364118	11.2
Agricultural pdts.	3092481	2717652	332054	161308	48.6	3423153	2983432	530286	314857	59.4
Industrial pdts.	16400805	14052922	5706463	2329679	40.8	21009636	18644015	13043937	5599102	42.9
All products	19493283	16770574	6038517	2490987	41.3	24432789	21627448	13574223	5913959	43.6
All GSP Beneficiaries, $US million										
Agricultural pdts.	33182	26133	8296	3652	44.0	34524	27272	9194	5087	55.3
Industrial pdts.	168870	97483	52043	18955	36.4	176154	108192	63485	25121	39.6
All products	202052	123616	60339	22607	37.5	210678	135464	72679	30208	41.6

a: see note (a) in table 4